

BNC

Risk Review

December 2006

LEHMAN BROTHERS

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LEHMAN BROTHERS

FOIA CONFIDENTIAL TREATMENT REQUESTED BY
LEHMAN BROTHERS HOLDINGS INC.

LBEX-DOCID 251077

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Executive Summary

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Executive Summary

Industry:

Ownit Mortgage Solutions has ceased operations and laid off 800 employees nationwide, part of the shakeout in the sub-prime lending business. Morgan Stanley has slashed 170 jobs at its newly acquired subprime unit, Saxon Mortgage, including president and chief executive Mike Sawyer. Harbourton Capital announced that effective December 20, 2006, Harbourton Mortgage Investment Corporation, its wholly owned mortgage-banking subsidiary, ceased funding new mortgage loans and initiated a process to wind down its operations. Alliance Bankshares announced it decided to cease operations of Alliance Home Funding as a stand alone mortgage banking subsidiary and instead will operate it as a division of Alliance Bank. Secured Funding has shuttered its wholesale mortgage operations, becoming the latest in a line of lenders to back away from an increasingly challenging business.

ABN Amro Mortgage Group is the latest in a crowd of lenders on the auction block, including H&R Block Inc.'s Option One Mortgage and ACC Capital Holdings Ameriquest Mortgage, both of which serve subprime borrowers. The struggling Mortgage Lenders Network will auction off a bulk package of mortgage servicing rights believed to have a total value of just under \$5 billion.

Fremont Investment and Loan, the third-largest provider of subprime U.S. mortgages through brokers, is broadly revising its lending guidelines for the second time within a year to reflect concerns about rising late payments by the riskiest borrowers.

Investors demanded higher premiums for asset-backed bonds backed by subprime loans, because of concerns about the sector.

Washington Mutual has announced that it will securitize subprime mortgage loans originated by its Long Beach Mortgage division under its WaMu Asset Acceptance Corp. shelf registration in 2007.

As of early December, the number of suspicious activity reports concerning mortgage fraud is up 62%, from 21,994 to 35,617. Also up are the number of pending cases, the number of charges and convictions, and the amount of cases in which losses against financial institutions, the government and individuals exceed \$1 million.

Concerned some borrowers may be over-stretching to buy homes, U.S. lending regulators on Tuesday released a new consumer handbook that warns of the risks associated with interest-only, payment-option and other exotic home loan products.

Executive Summary

Originations:

Submissions were slightly down in December, while average loan balances keep going up. Fundings remained almost flat to the November levels. Credit characteristics continue to improve, with DTIs and CLTVs continuing to decrease. Investment properties run below 8%, while single family homes run at an all time high. Purchases hit their lowest levels since Jan-05. Stated loans production runs to the early 2005 levels. 80-20s hit an all time low at 11%, while Select Lending hit an all time high at 46%. There was a spike of QC findings in December.

Performance:

First Payment Defaults hit an all time high with a substantial increase in the 30s at 30 bucket. There were servicing issues at Chase that contributed to that number. The true FPD number cannot be calculated at this point - it is estimated to be close to the November number.

We see a continuous deterioration of long term performance, starting the 3rd quarter of 2004. The 6 month bad rate (60+) jumped 160 bps between the last quarter of 2005 and the first quarter of 2006. The 12 month bad rate (60+) has increased from 3.5% to 6.2% in 4 quarters as well. All the other windows are showing similar trends.

Claims:

Rep and Warrant claims were higher for Finance America in December, primarily due to increased claims from CIT. BNC claims were at their lowest level since July.

BNC reserves for November were \$6.5 million, representing 60 bps of December sales.

The FA repurchased loan inventory sits at \$23.1 million, while the BNC 120+ inventory is \$43.6 million.

Servicing:

Rollrates were up across the board, primarily due to servicing issues. Foreclosures and REOs are at their highest levels, 5.5%, and 1.5% respectively, while bankruptcies run at 1.4%. 30+, 60+, 90+ rates continue to increase on all buckets, hitting a new record every month, following suit to the overall industry performance.

Executive Summary

Other:

Between 2005 and 2006 we observed the following changes to the BNC's product mix:

- 80/20s production has dropped from 33% in late 2005 to 11% by end of 2006.
- 2nd liens production has dropped from 7% in late 2005 to 2% by end of 2006.
- CLTV average has dropped from 89% in late 2005 to 86% by end of 2006.
- DTI has dropped from 43% in late 2005 to 42% by end of 2006.
- Non owner occupied production has dropped from 15% in late 2005 to 7% by end of 2006.
- FICO has dropped from 635 in late 2005 to 623 by end of 2006 (lower drop than the industry).
- Single family homes have increased from 67% in late 2005 to 73% by end of 2006.
- First time homebuyers have dropped from 16% in late 2005 to 8% by end of 2006.
- Purchases have dropped from 44% in late 2005 to 24% by end of 2006.
- Full doc loans have increased from 54% in late 2005 to 56% by end of 2006.

At the same time performance has deteriorated substantially, both on the short term (EPDs) as well as on the long term. A default analysis of BNC originations is presented in the last pages of the document. A recommendation of revised guidelines will be discussed on the monthly risk review meeting.

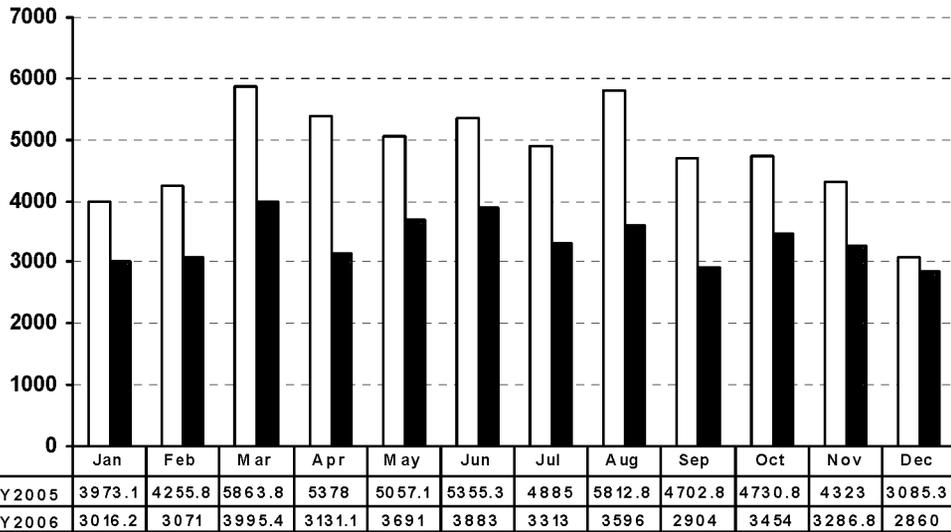
BNC Originations

LEHMAN BROTHERS

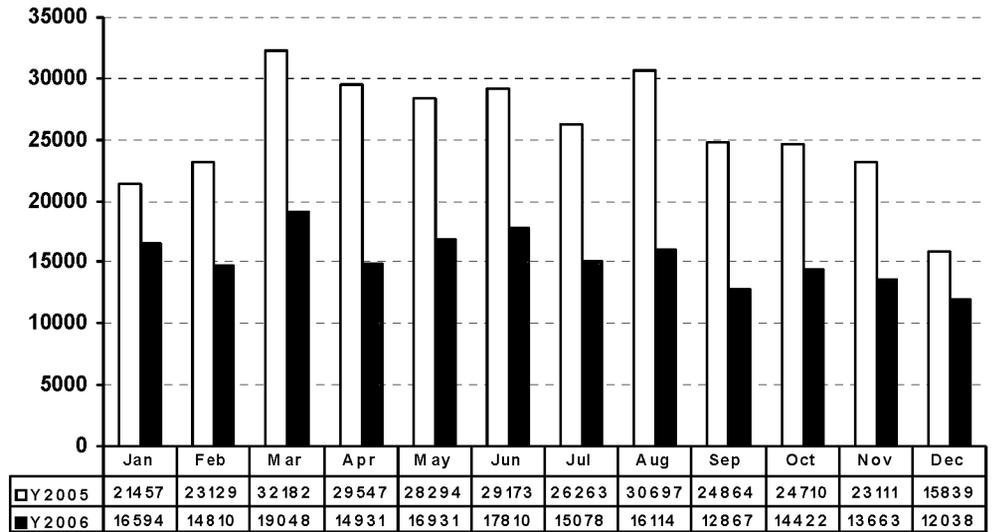
BNC Originations

Submissions were slightly down in December, while average loan balances keep going up

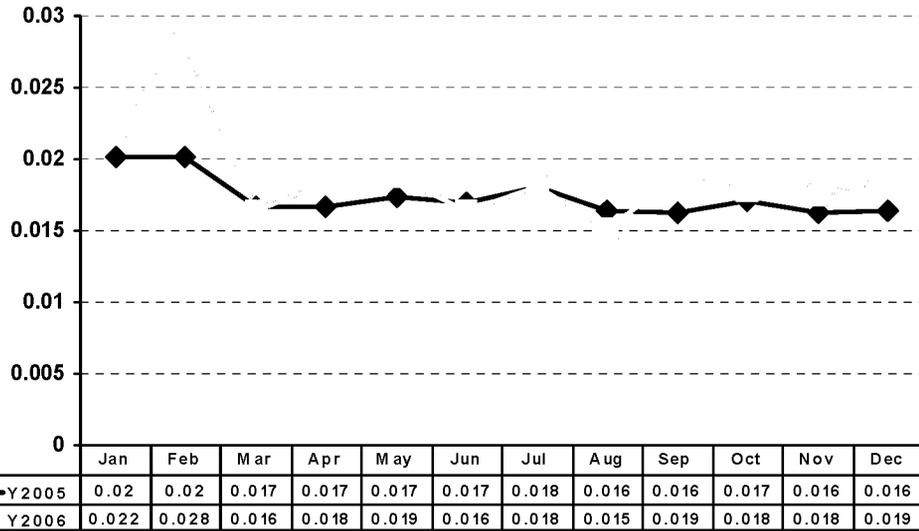
Submissions - \$



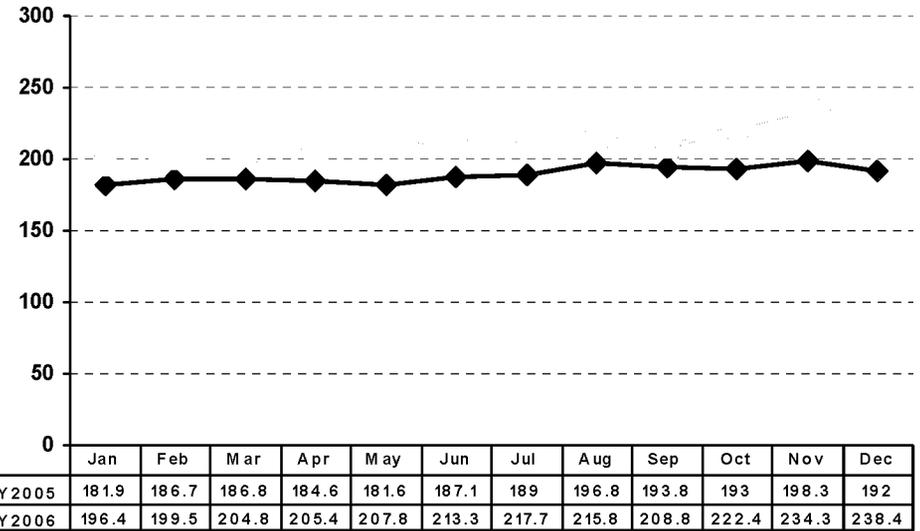
Submissions - Units



Cost to Originate % (Fully Loaded)



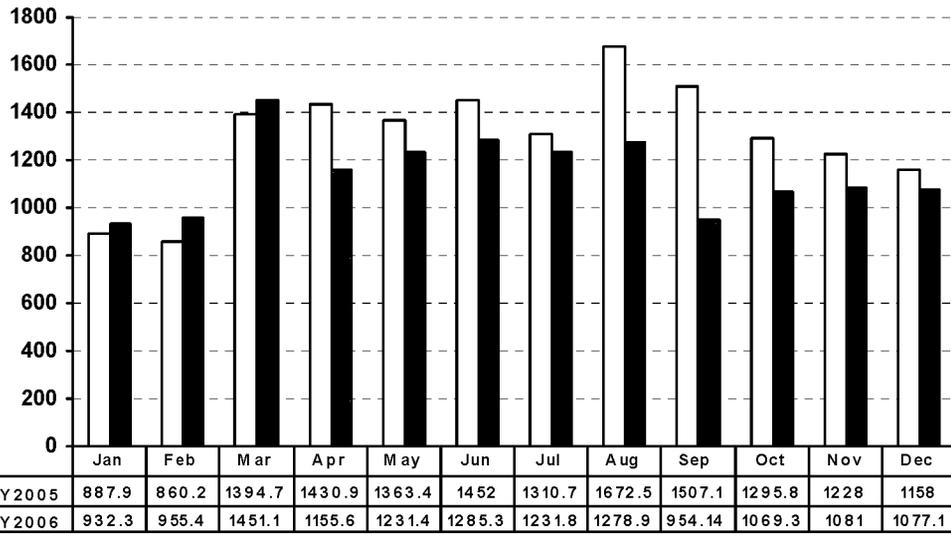
Average Loan Amount



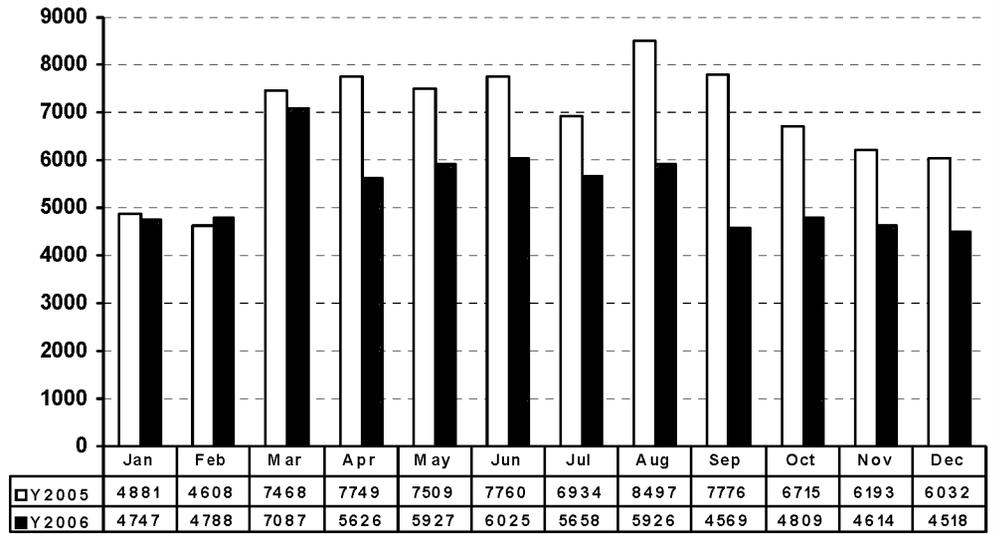
BNC Originations

Fundings remained almost flat

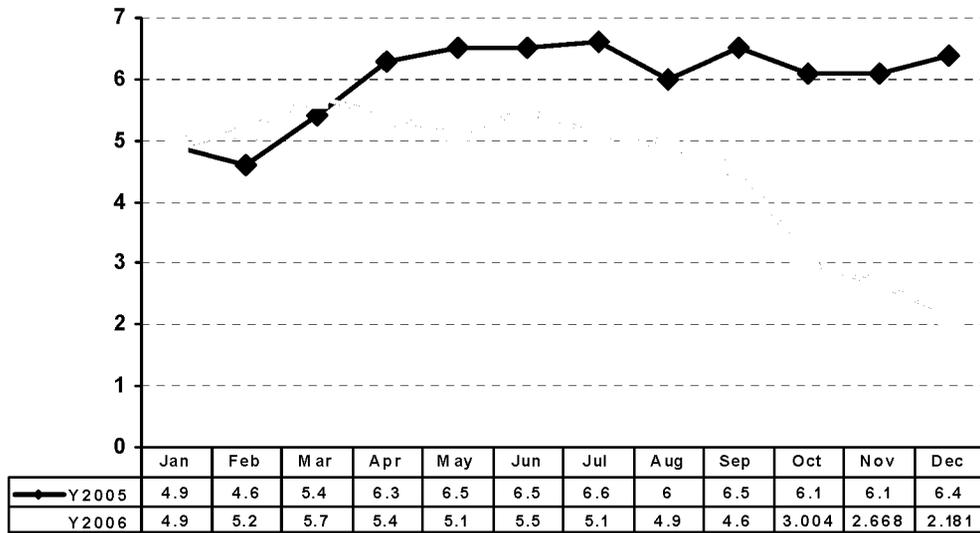
Original Balances



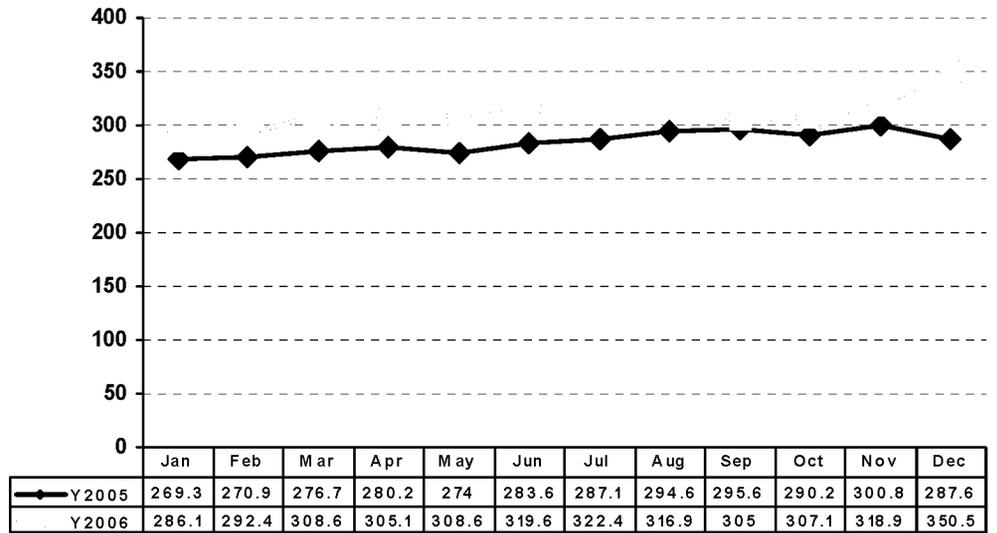
Original Units



Original % 2nd Liens



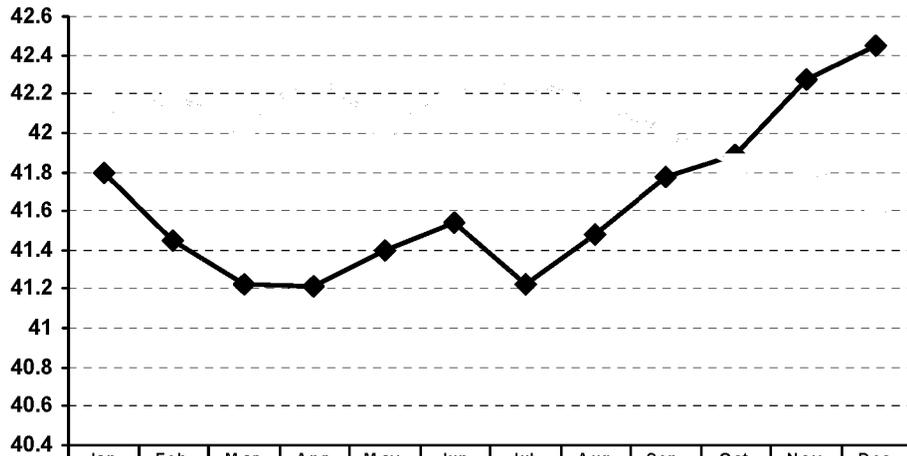
Original Appraisal Value



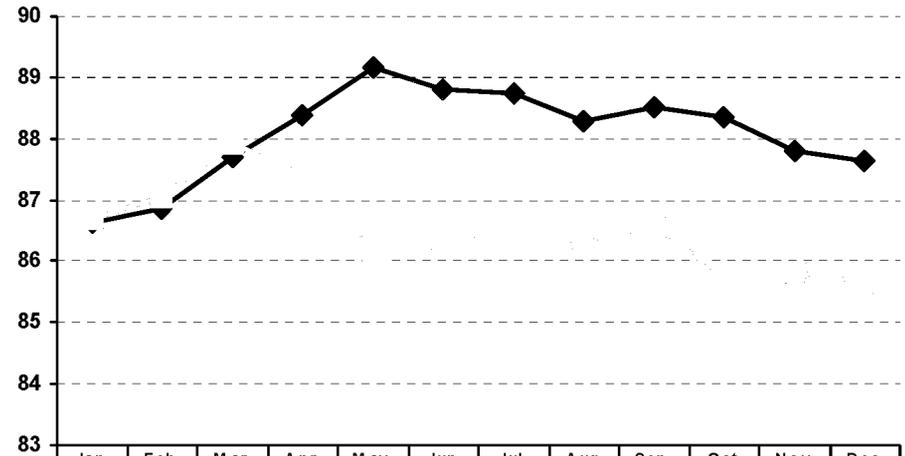
BNC Originations

DTIs and CLTVs continue to decrease

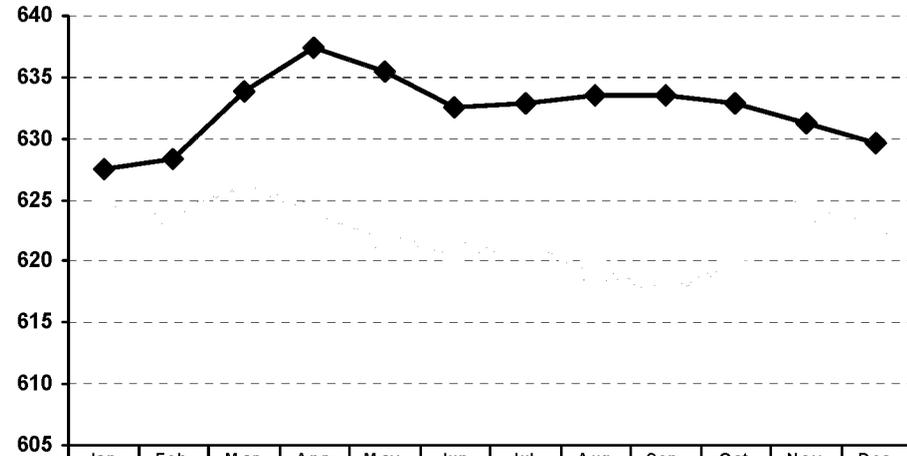
Original DTI



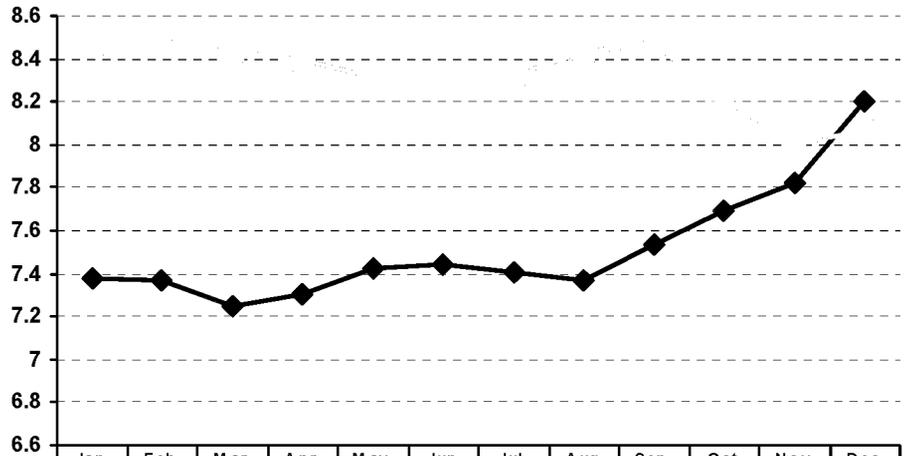
Original CLTV



Original FICO



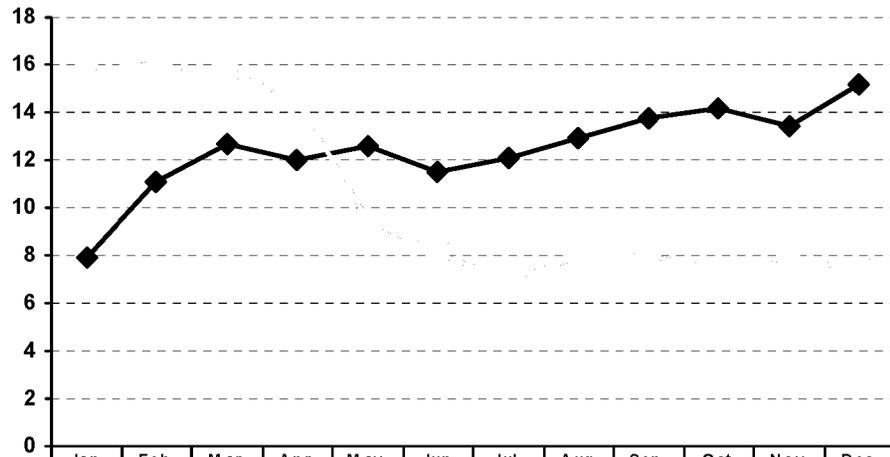
Original Interest Rate



BNC Originations

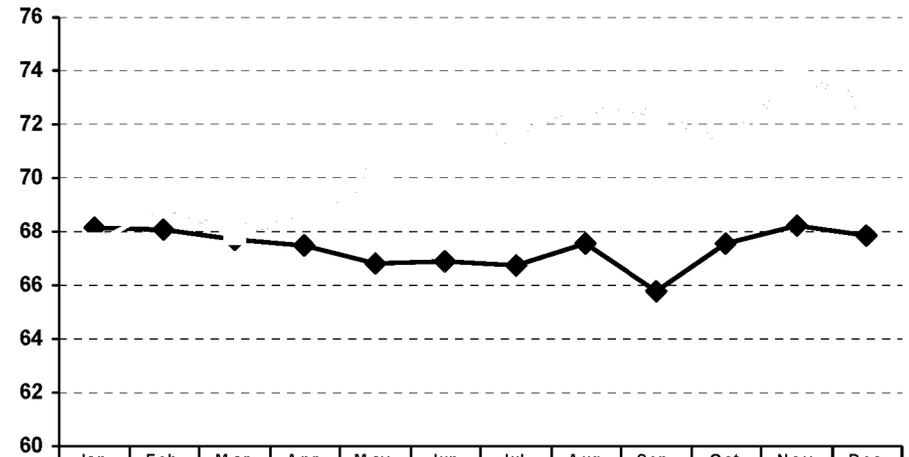
Investment properties run below 8%, while single family homes run at an all time high

Original % Non Owner Occupied 



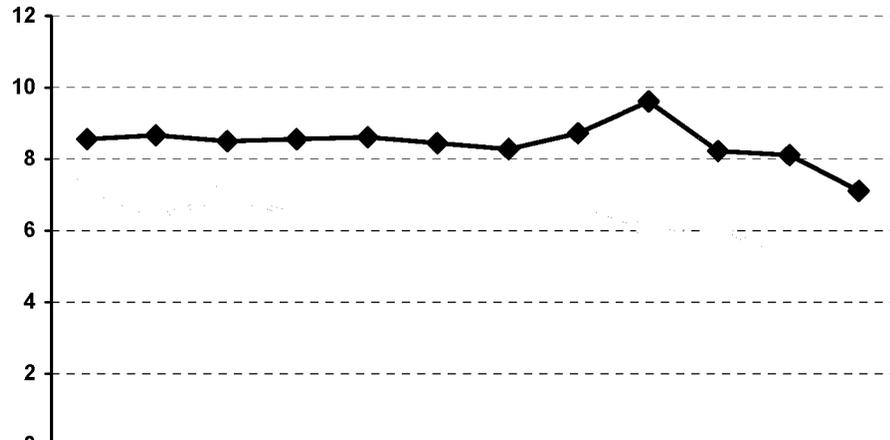
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	7.944	11.1	12.68	11.98	12.58	11.47	12.1	12.93	13.78	14.14	13.4	15.15
Y2006	16.23	15.94	15.79	14.51	9.482	8.091	7.04	7.921	7.97	7.451	7.853	7.391

Original % Single Family 



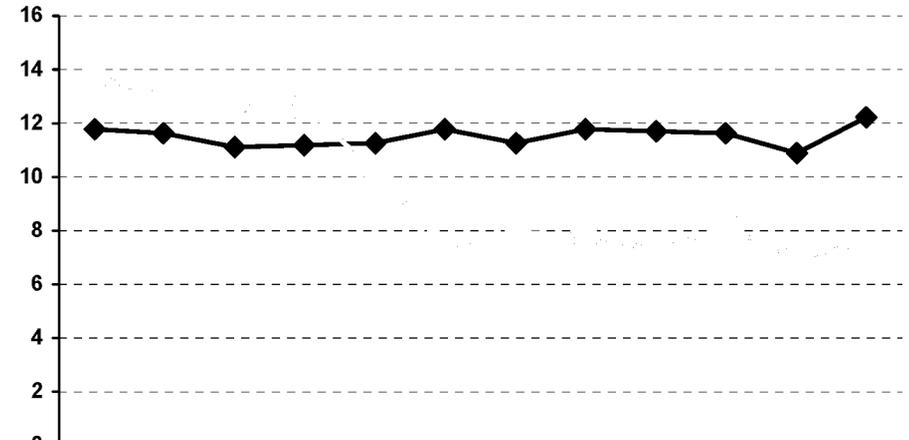
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	68.18	68.05	67.72	67.48	66.83	66.86	66.7	67.53	65.76	67.58	68.25	67.86
Y2006	67.54	68.98	67.9	68.52	69.92	71.82	71.66	72.84	72.38	71.35	73.74	72.96

Original % Condo 



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	8.583	8.679	8.483	8.57	8.615	8.459	8.283	8.723	9.599	8.245	8.109	7.128
Y2006	7.18	6.38	6.968	6.419	6.363	6.779	6.577	6.6	5.961	6.179	5.075	4.973

Original % Multifamilies 

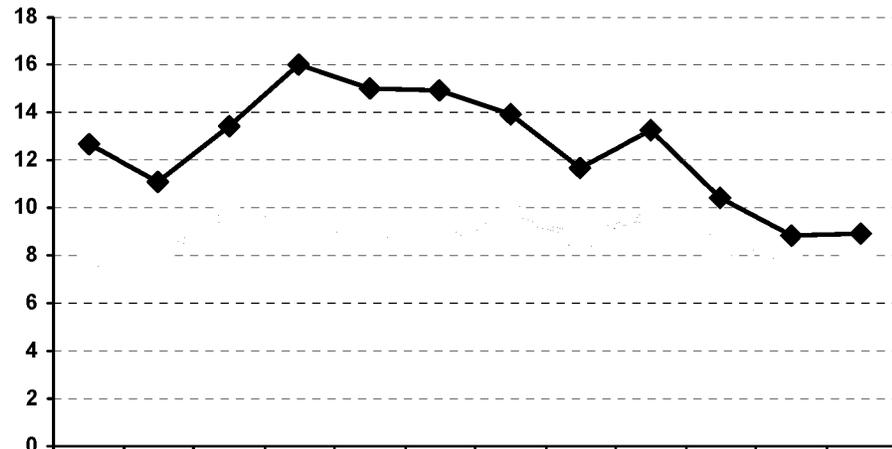


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	11.77	11.61	11.08	11.2	11.28	11.78	11.24	11.74	11.69	11.64	10.9	12.22
Y2006	13.76	13	12.84	12.62	10.2	7.421	7.929	7.829	7.226	8.128	6.935	7.548

BNC Originations

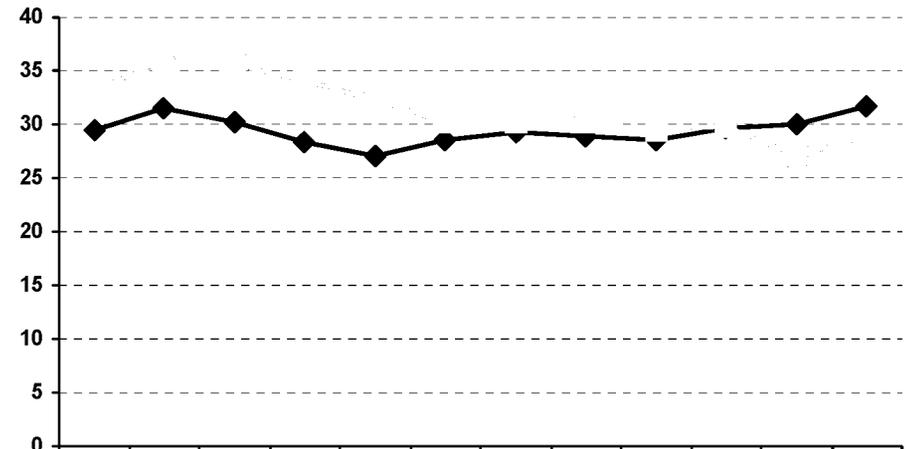
Purchases hit their lowest levels since Jan-05

Original % First Time Homebuyer



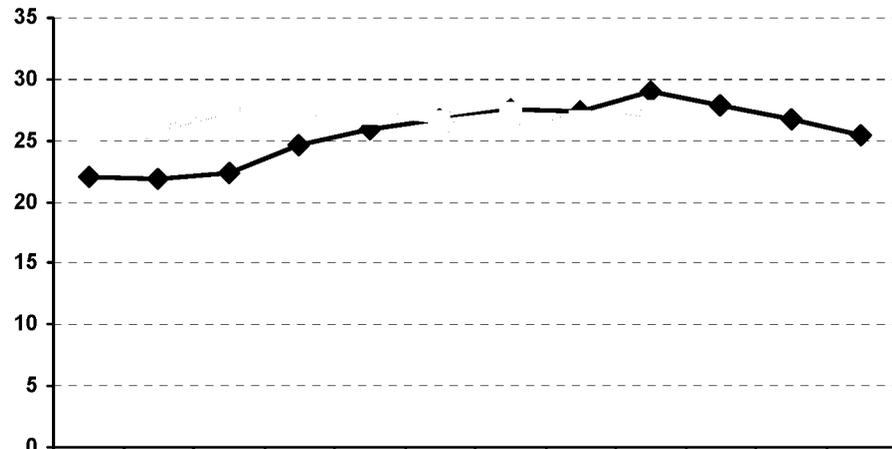
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	12.7	11.11	13.46	16.02	14.98	14.88	13.89	11.63	13.21	10.43	8.872	8.901
Y2006	7.982	7.879	9.848	9.268	8.88	8.68	9.56	8.827	9.637	8.408	7.837	7.957

Original % Self Employed



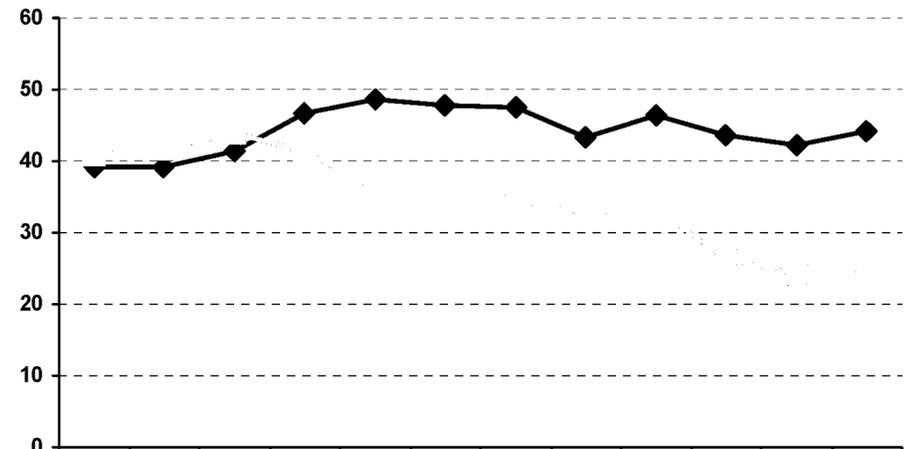
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	29.53	31.46	30.1	28.38	27.07	28.44	29.32	28.88	28.59	29.64	29.95	31.64
Y2006	33.08	35.97	35.49	34.04	32.21	30.25	30.27	30.28	29.42	29.88	26.99	28.9

Original % Wage Earner



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	22.1	21.8	22.3	24.6	25.9	26.8	27.5	27.4	29	27.9	26.7	25.4
Y2006	25.7	26	27.4	26.7	27.2	26.6	27.3	26.6	27.4			

Original % Purchase

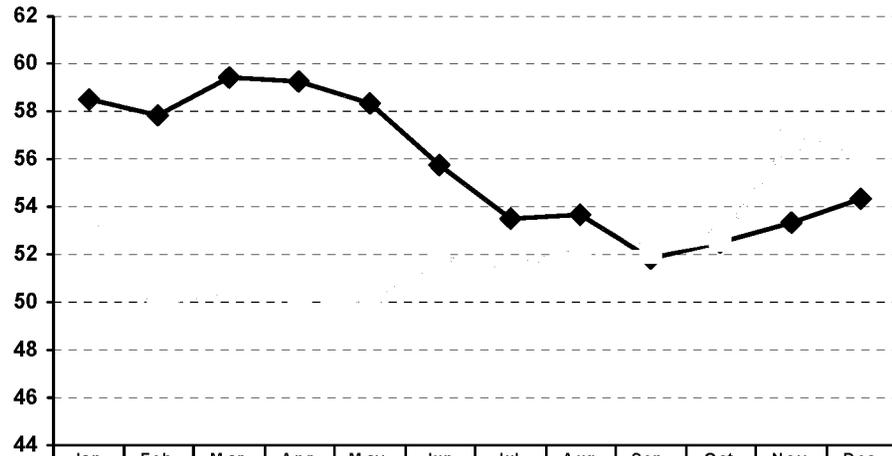


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	39.11	39.05	41.39	46.69	48.69	47.77	47.5	43.47	46.5	43.56	42.35	44.12
Y2006	40.93	41.62	44	41.28	35.99	35.45	34.41	32.85	33.31	26.52	24.05	24.02

BNC Originations

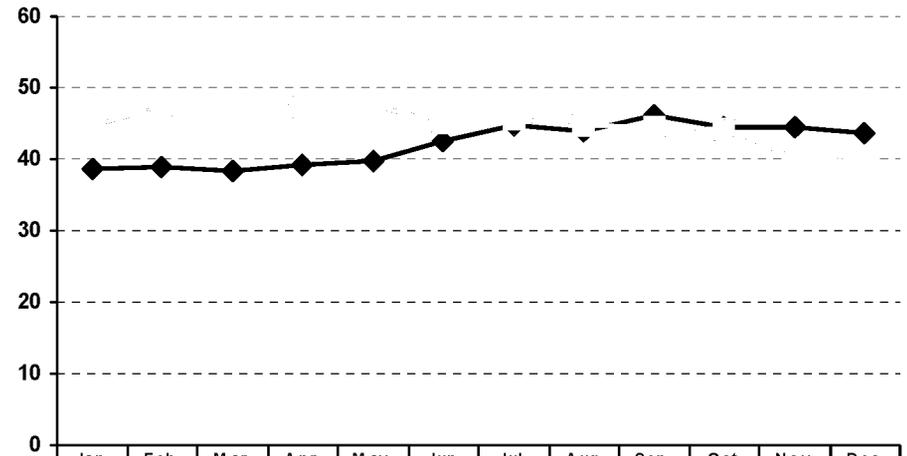
Stated loans production runs to the early 2005 levels

Original % Full Documentation



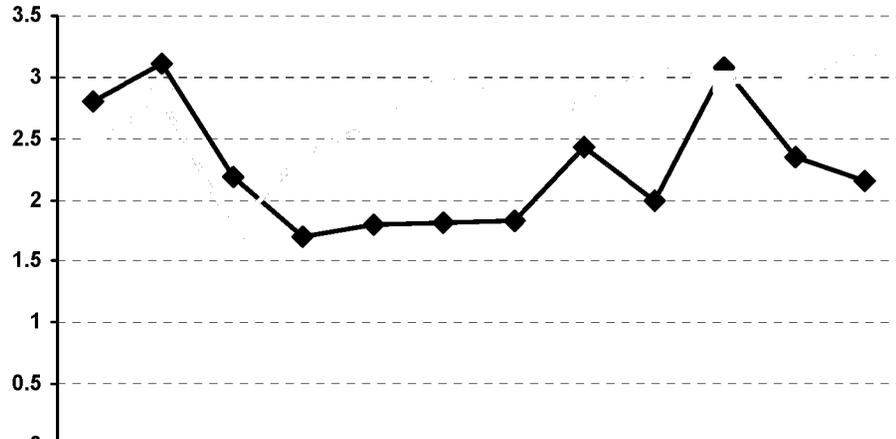
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	58.48	57.87	59.45	59.26	58.36	55.77	53.49	53.69	51.87	52.52	53.32	54.35
Y2006	52.77	49.92	50.47	50.29	49.87	51.83	51.52	52.17	52.07	52.56	56.83	56.36

Original % Stated Documentation



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	38.72	39.01	38.35	39.04	39.85	42.42	44.68	43.88	46.13	44.4	44.34	43.5
Y2006	44.78	47.26	47.76	47.35	47.5	44.92	45.53	44.76	44.57	44.26	39.84	40.14

Original % Lite Documentation



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	2.797	3.112	2.194	1.694	1.792	1.812	1.827	2.426	1.998	3.076	2.343	2.154
Y2006	2.451	2.82	1.773	2.367	2.62	3.057	2.759	2.772	3.075	2.965	2.969	3.254

Original % NINA

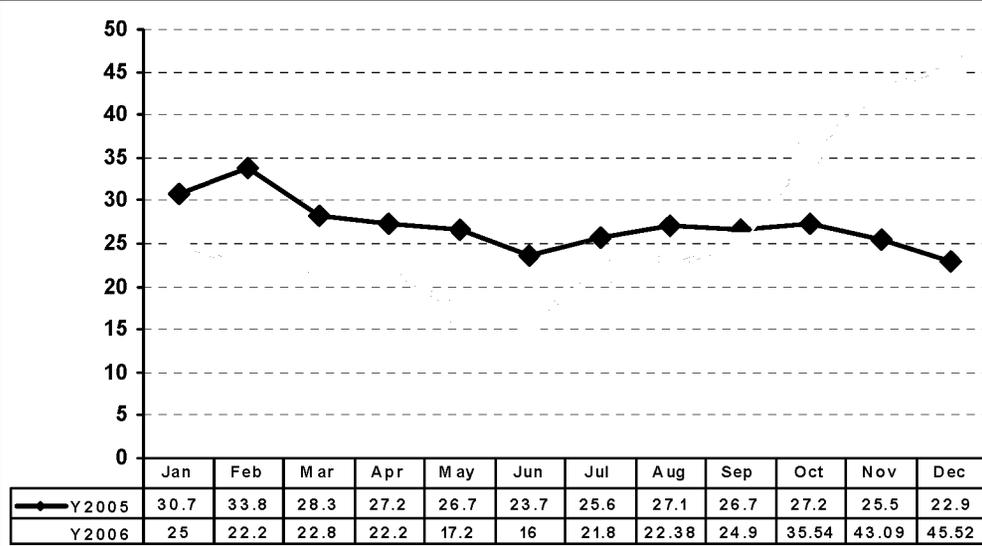


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	0	0	0	0	0	0	0	0	0	0	0	0
Y2006	0	0	0	0	1.69E-	0.191	0.189	0.302	0.283	0.213	0.361	0.245

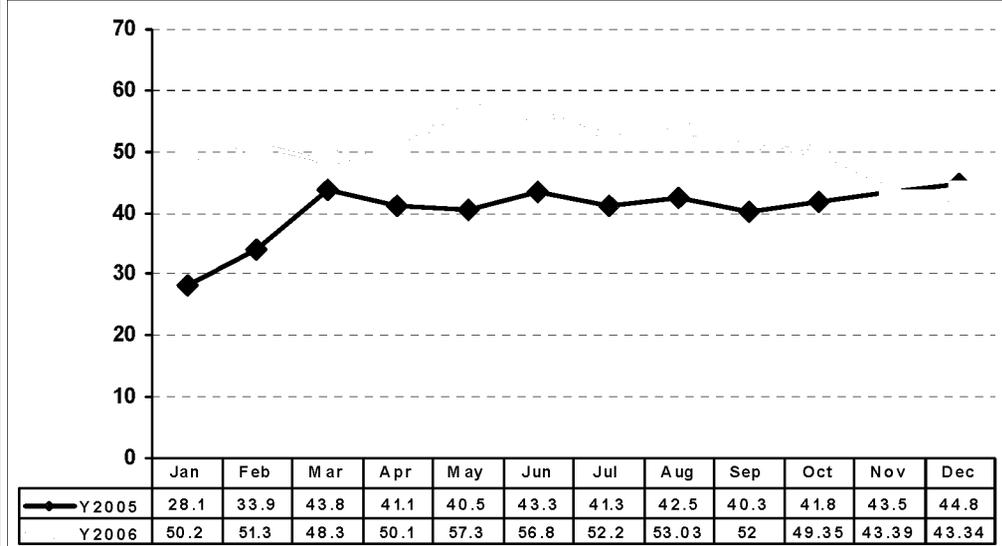
BNC Originations

80-20s hit an all time low at 11%, while Select Lending hit an all time high at 46%

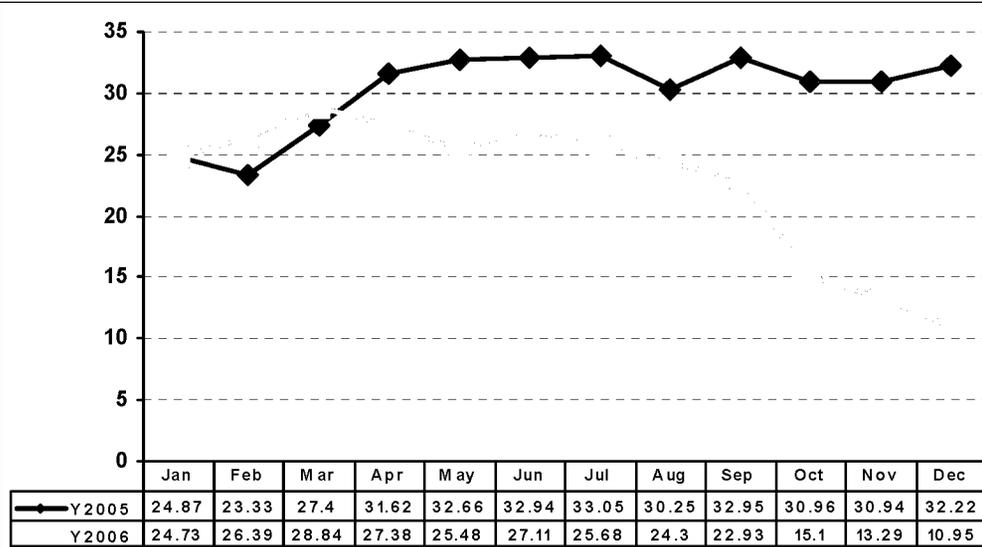
Original % Select Lending Program



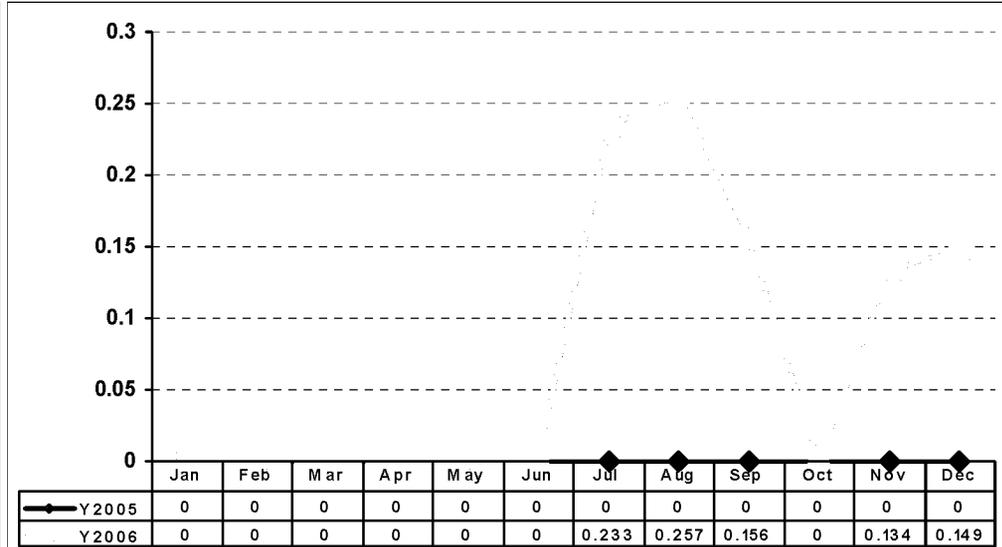
Original % Score Advantage Program



Original % 80-20s



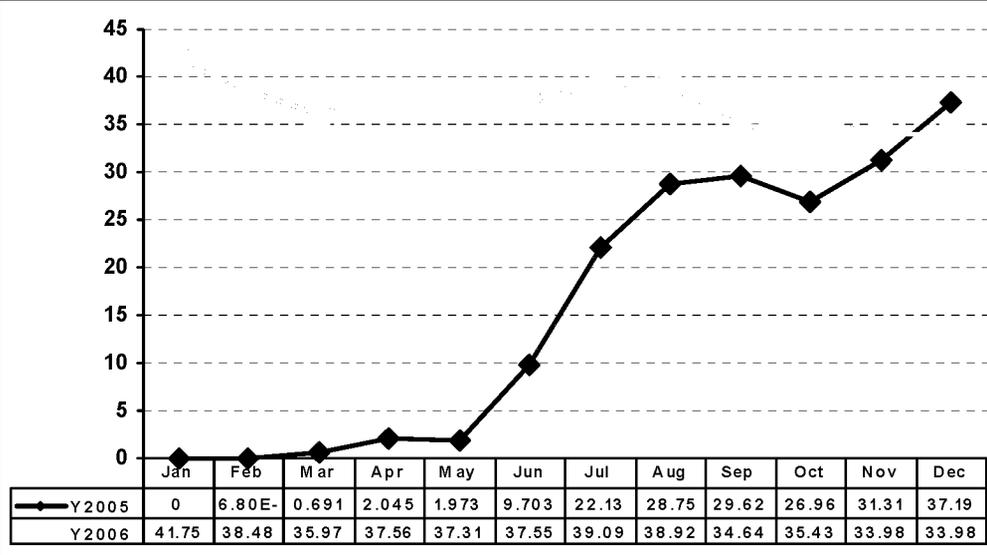
Original % AAA Super Jumbo



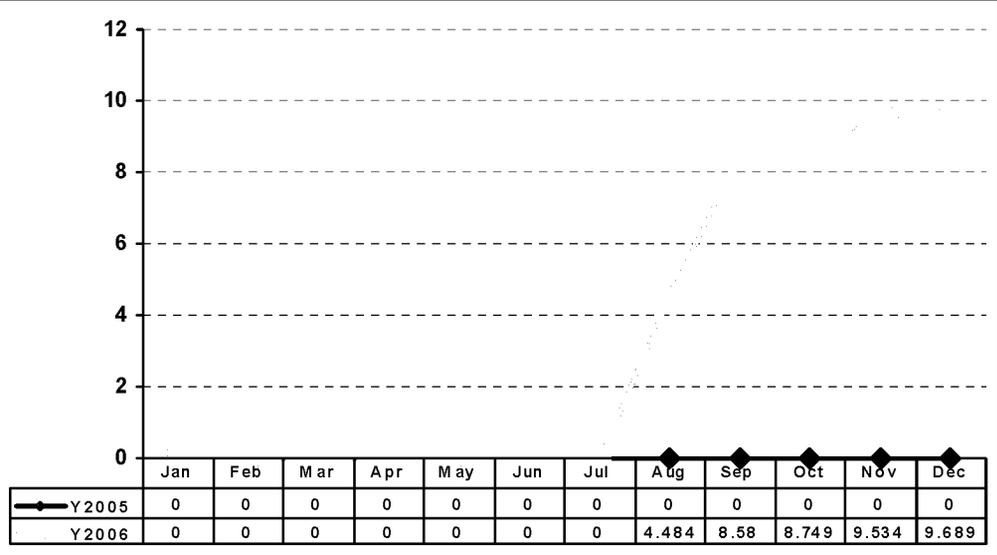
BNC Originations

The 50 Year loan continues to gain vs the 40 Year and the IO loans

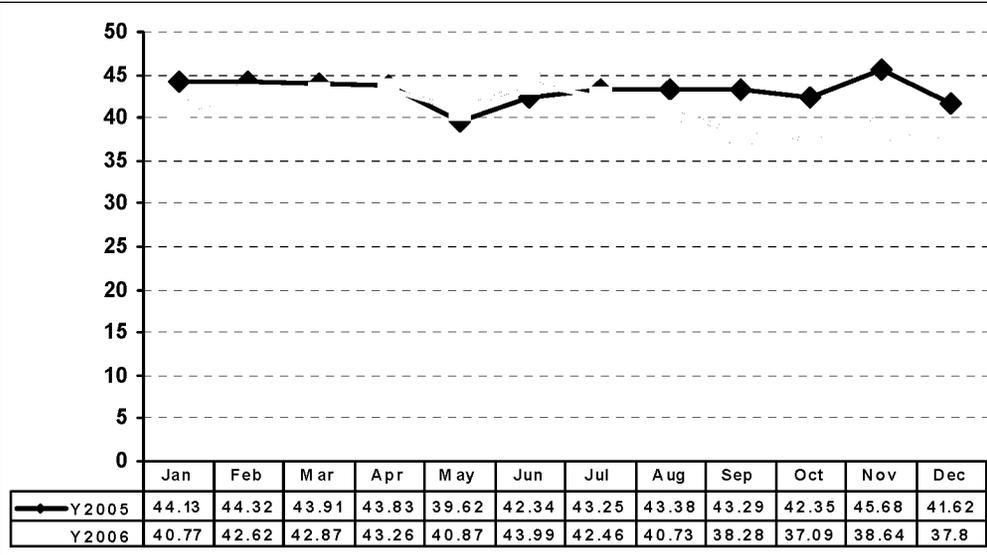
Original % 40 Year



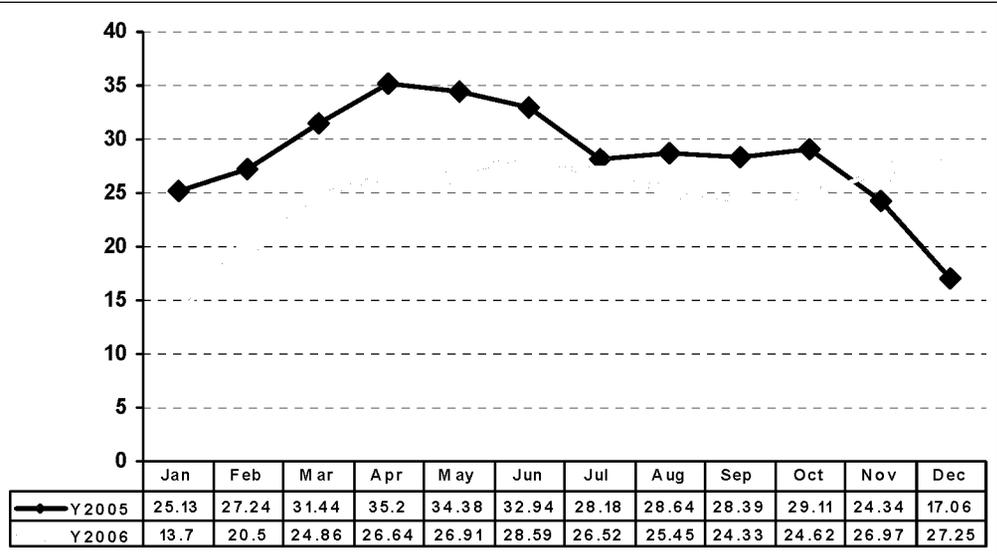
Original % 50 Year



Original % CA



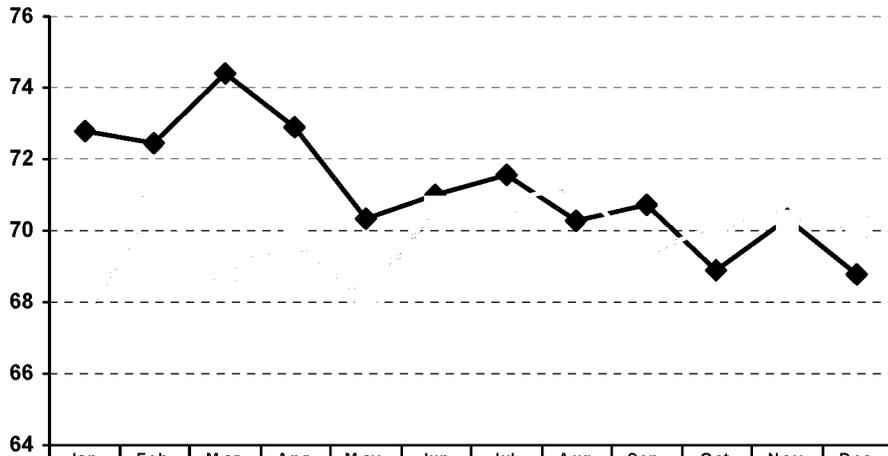
Original % IO



BNC Originations

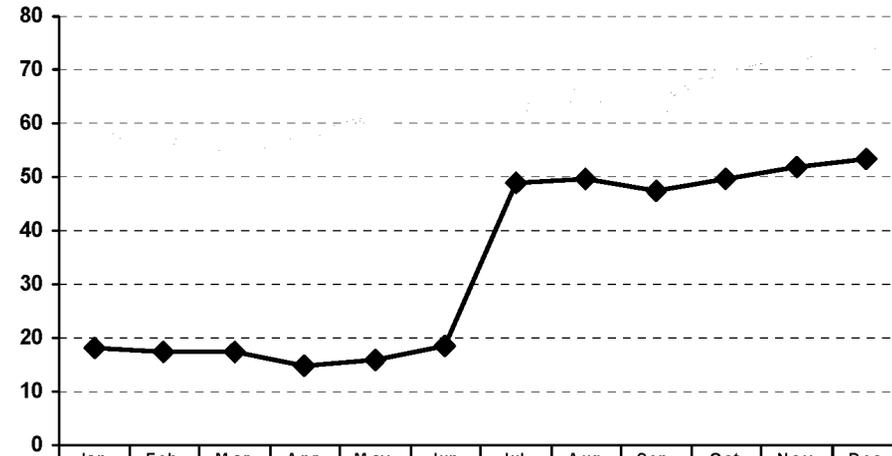
Cashouts continue to be over two thirds of the production

Original % with Prepayment Penalty



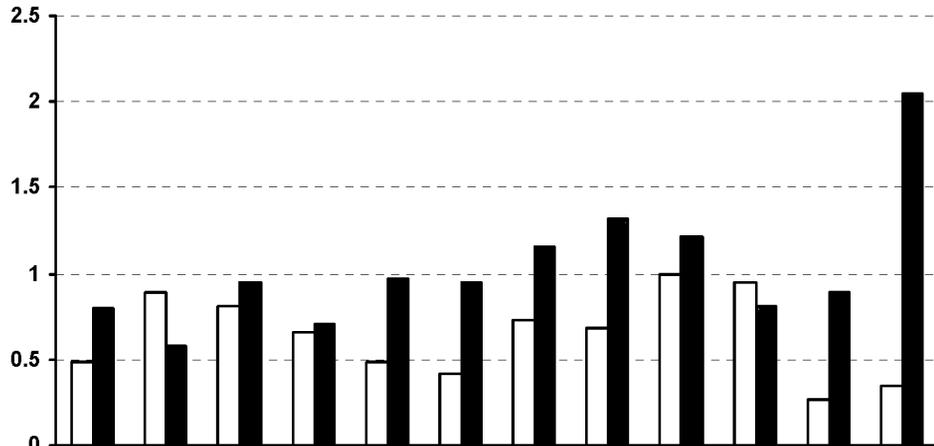
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	72.76	72.47	74.38	72.92	70.35	71	71.54	70.27	70.73	68.9	70.36	68.8
Y2006	67.67	70.67	68.87	69.73	68.08	70.66	70.83	71.27	69.33	70.15	70.3	70.14

Original % Cashout



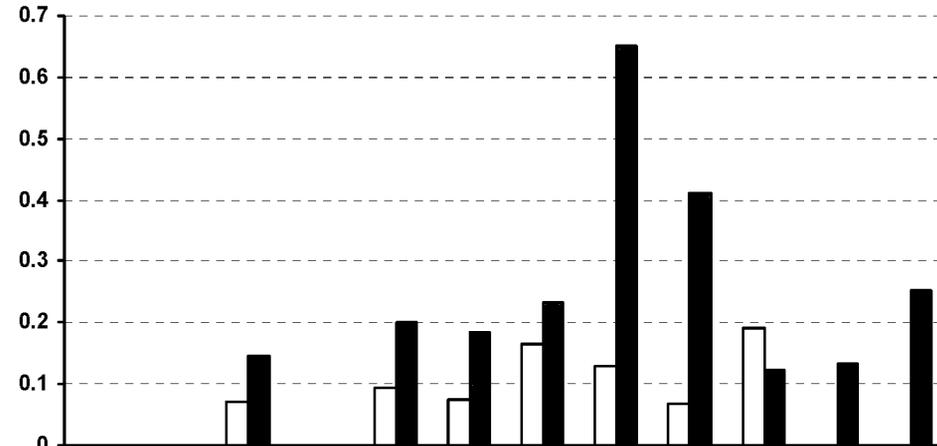
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	18.24	17.34	17.37	14.93	16.02	18.68	48.85	49.45	47.47	49.64	51.75	53.19
Y2006	57.74	56.9	54.71	56.89	61.99	63.17	64.06	64.54	64.22	70.02	72.79	71.83

Original % with Amounts > 750K



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	0.481	0.8864	0.8128	0.6583	0.4856	0.4144	0.7283	0.6784	1.0002	0.9505	0.2608	0.3522
Y2006	0.7993	0.5805	0.9446	0.706	0.9747	0.9519	1.1598	1.3221	1.2177	0.8051	0.8924	2.0521

Original % with Amounts > 1MMM

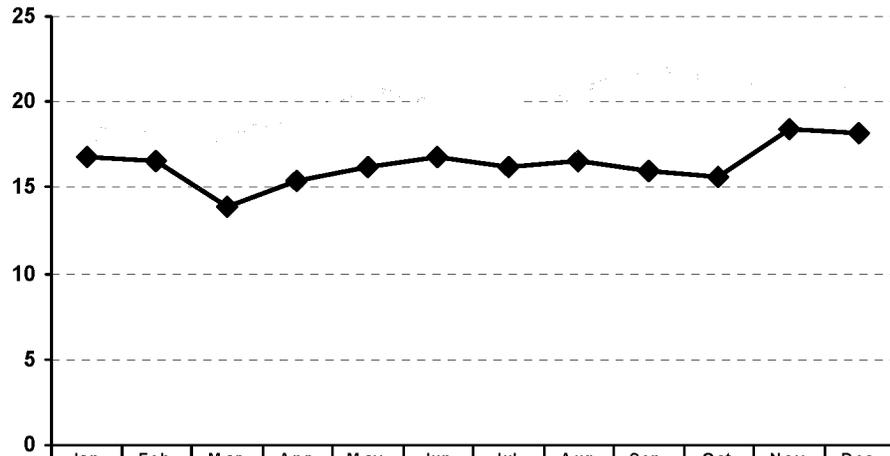


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	0	0	7.26E-	0	9.24E-	7.36E-	0.1669	0.1289	6.82E-	0.191	0	0
Y2006	0	0	0.1453	0	0.2013	0.184	0.233	0.6511	0.4124	0.1216	0.1337	0.2525

BNC Originations

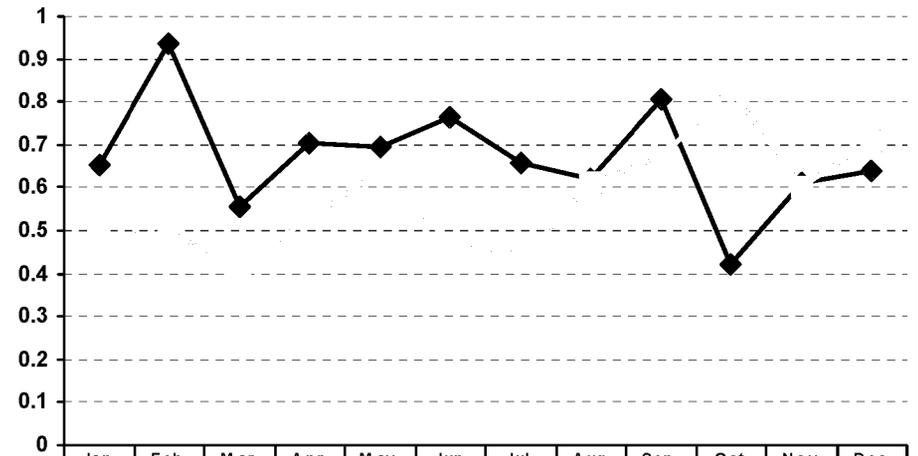
Loans with previous BK have stabilized to 21%

Original % with prior BK ↑



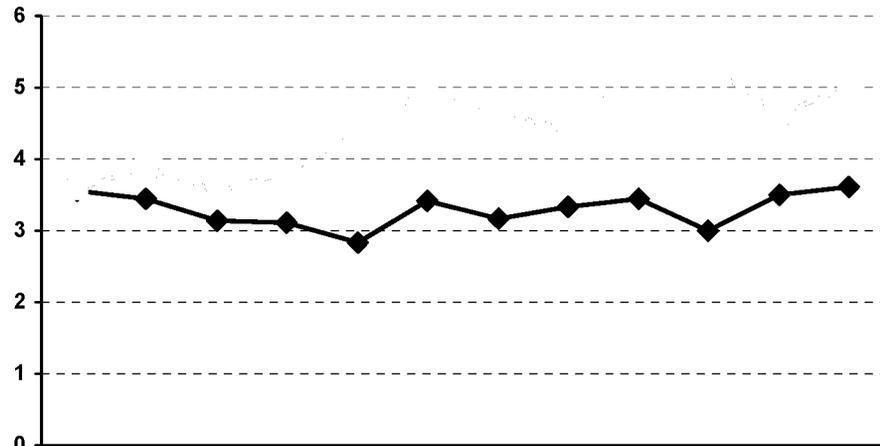
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	16.83	16.54	13.84	15.42	16.16	16.79	16.22	16.57	15.97	15.64	18.41	18.16
Y2006	18.35	18.75	18.12	19.09	20.79	19.93	20.13	20.65	22.15	21.2	21.03	21

Original % with prior FC ↓



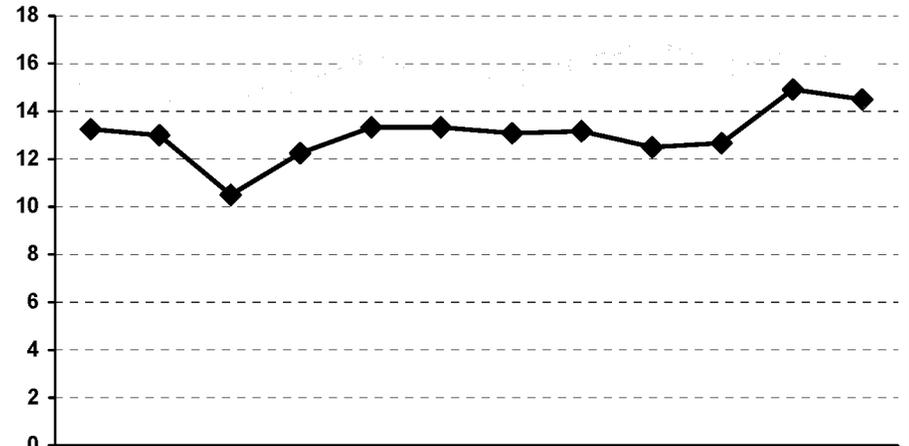
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	0.651	0.933	0.557	0.704	0.696	0.764	0.659	0.622	0.806	0.421	0.613	0.639
Y2006	0.487	0.496	0.418	0.529	0.641	0.474	0.429	0.611	0.671	0.83	0.6	0.707

Original % with prior BK 13 ↓



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	3.55	3.45	3.14	3.1	2.84	3.41	3.16	3.33	3.44	2.99	3.5	3.62
Y2006	3.58	3.88	3.56	3.8	4.36	4.99	4.65	4.42	5.25	5.31	4.64	4.992

Original % with prior BK 7 ↑

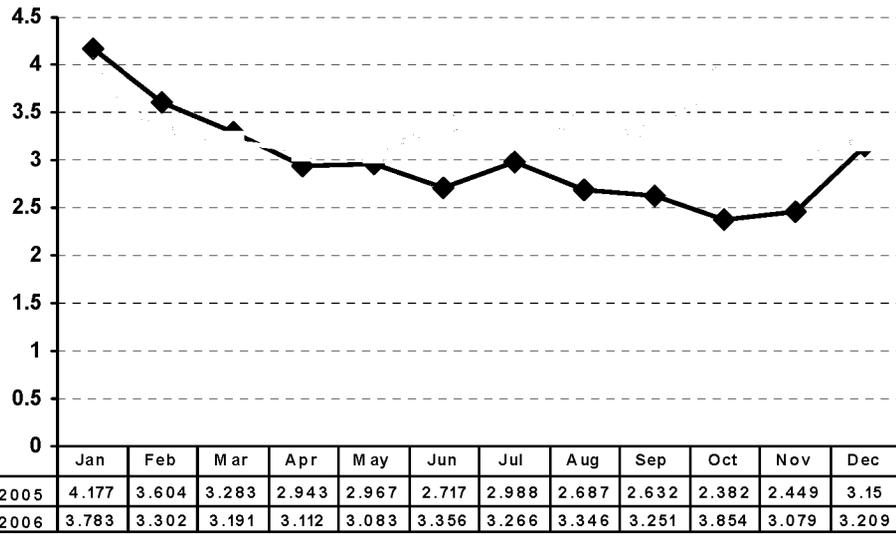


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	13.23	13	10.49	12.25	13.31	13.37	13.05	13.16	12.51	12.65	14.91	14.54
Y2006	14.78	14.87	14.56	15.29	16.43	14.88	15.48	16.07	16.91	15.89	16.39	16

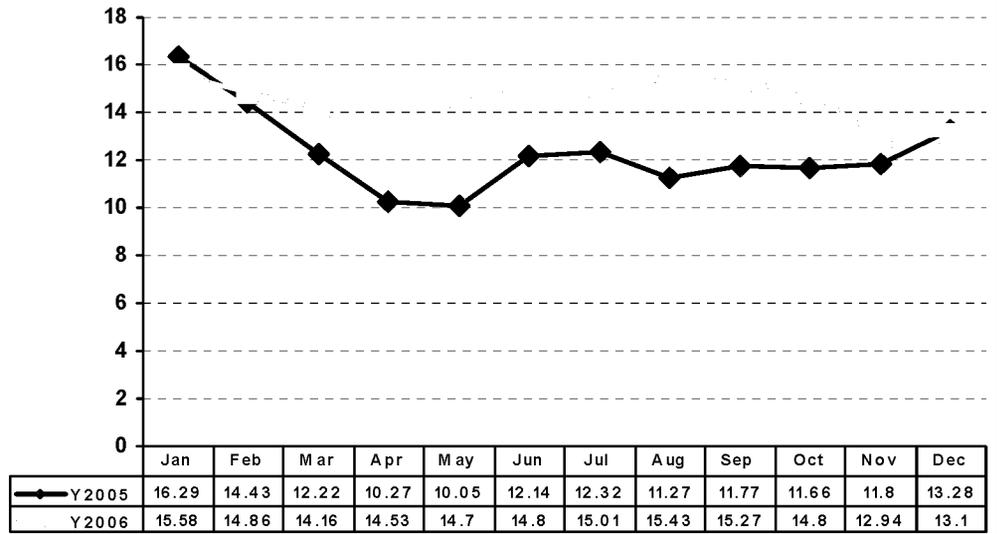
BNC Originations

High CLTVs have dropped over 15 points since last year

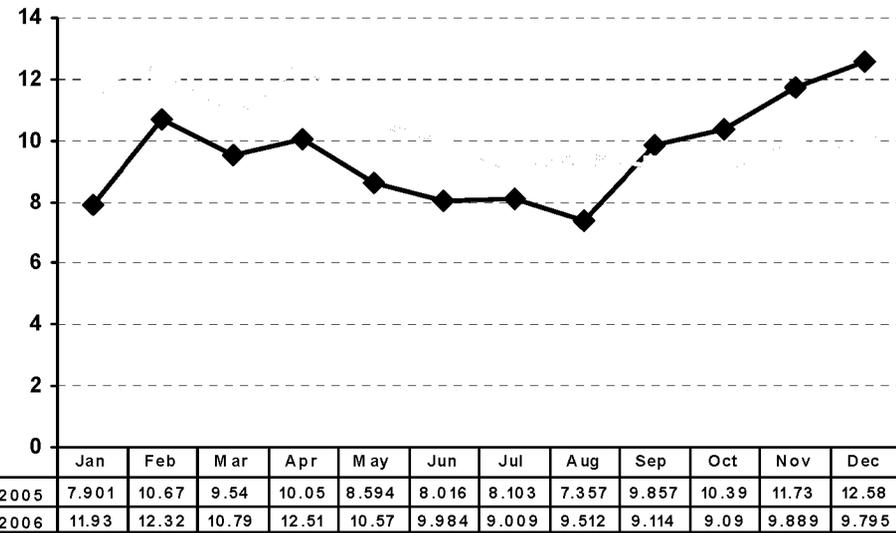
Original FICO <= 520



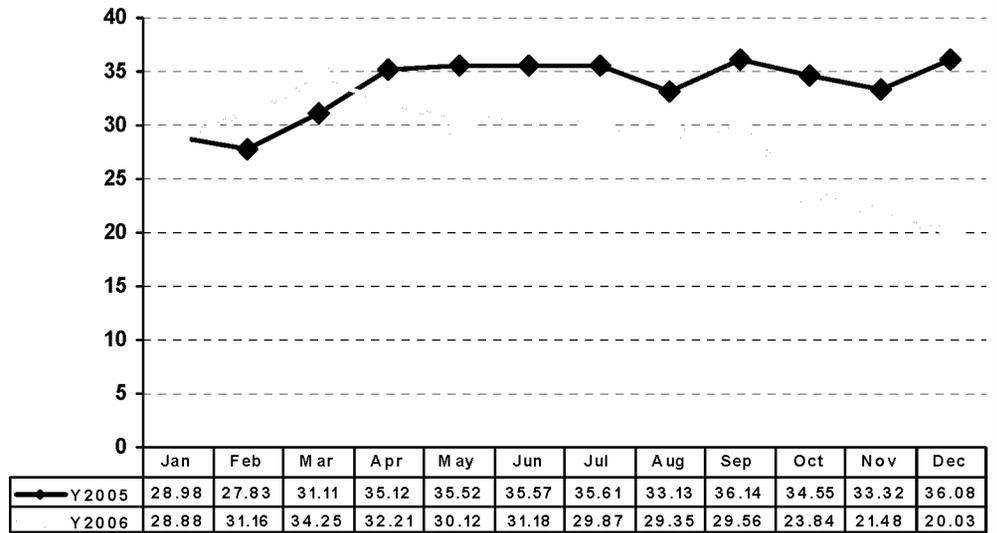
Original FICO < 560



Original DTI > 50



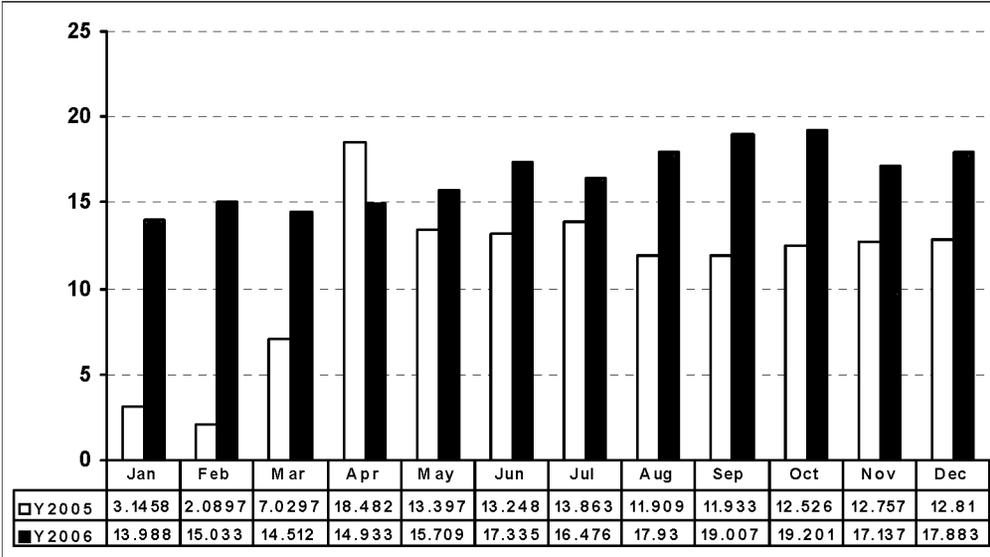
Original CLTV > 95



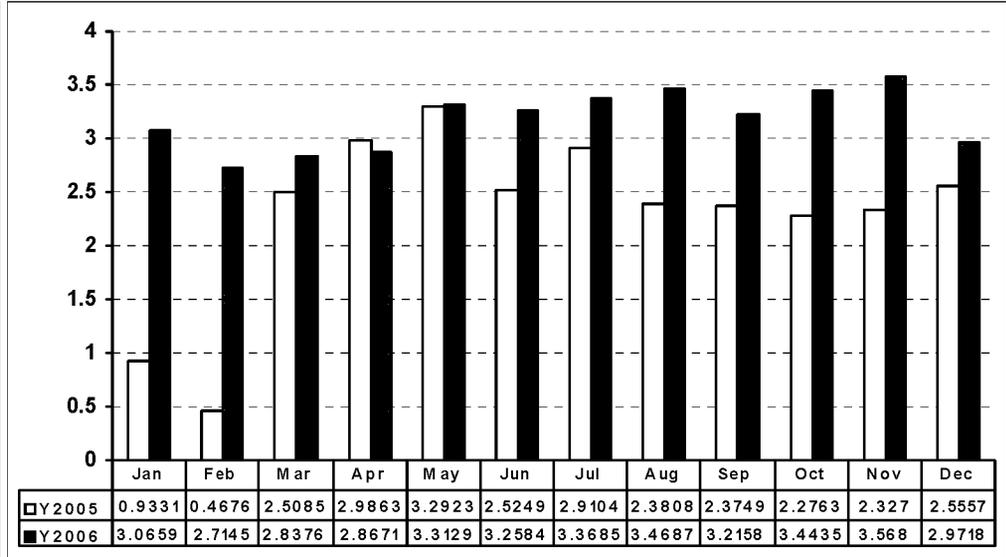
BNC Originations

Mortgage histories have generally stabilized

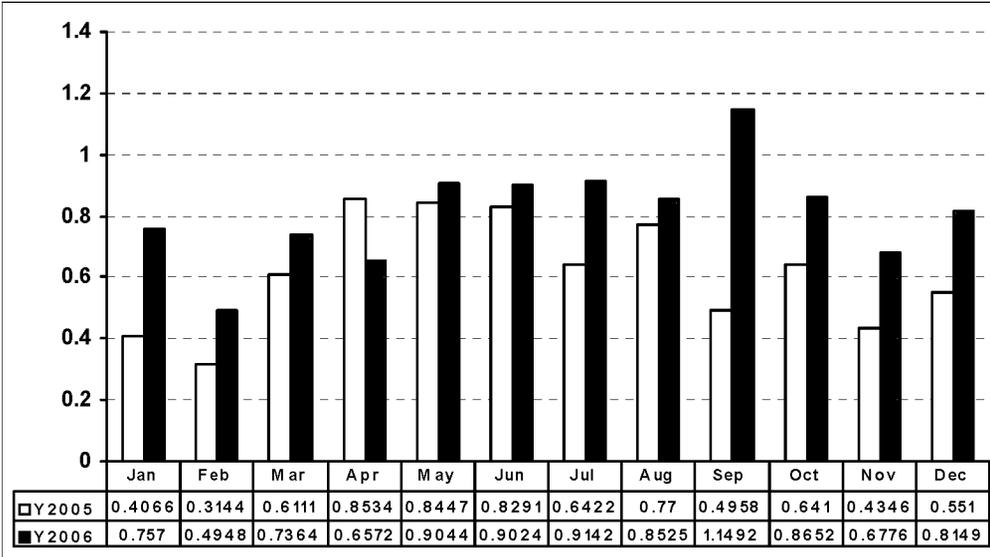
Original % 1x30



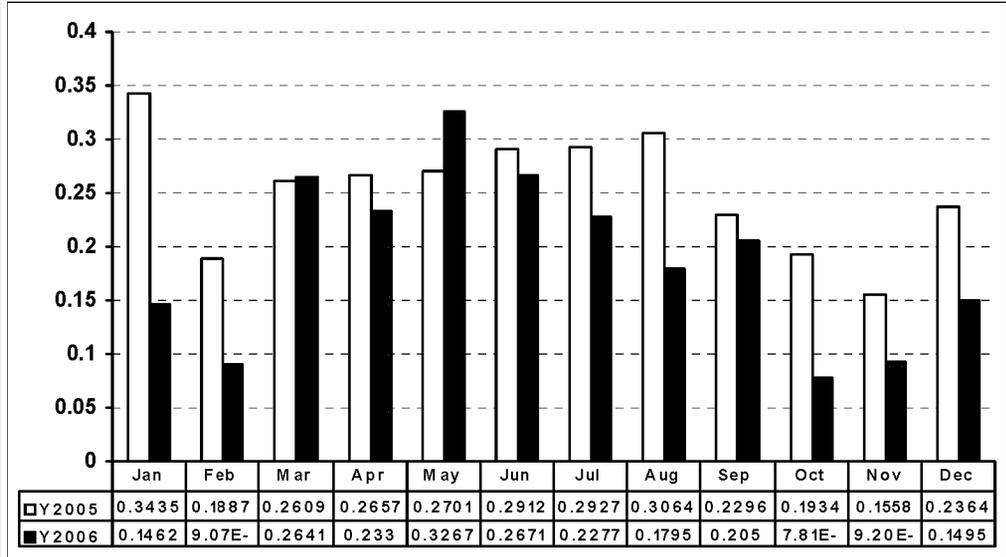
Original % 1x60



Original % 1x90



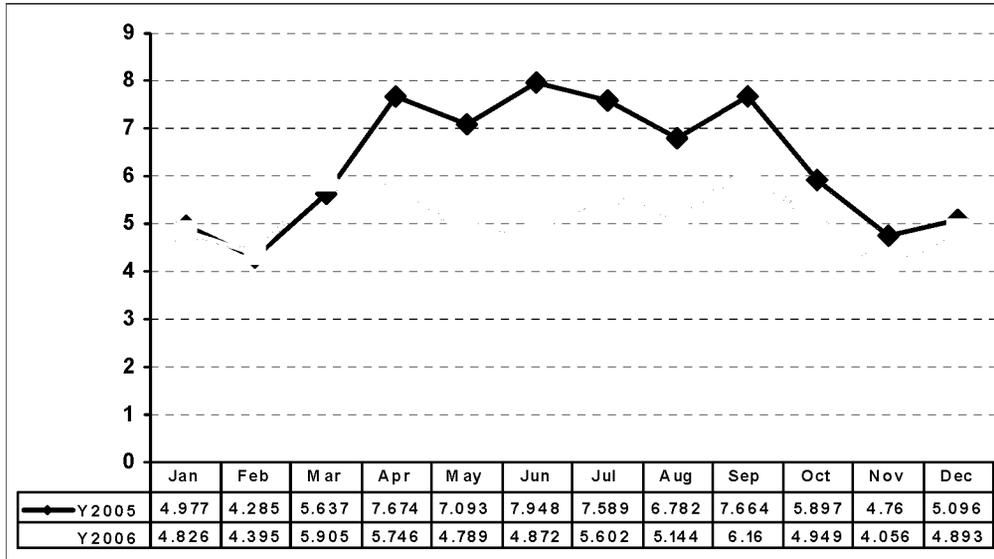
Original % 1x120



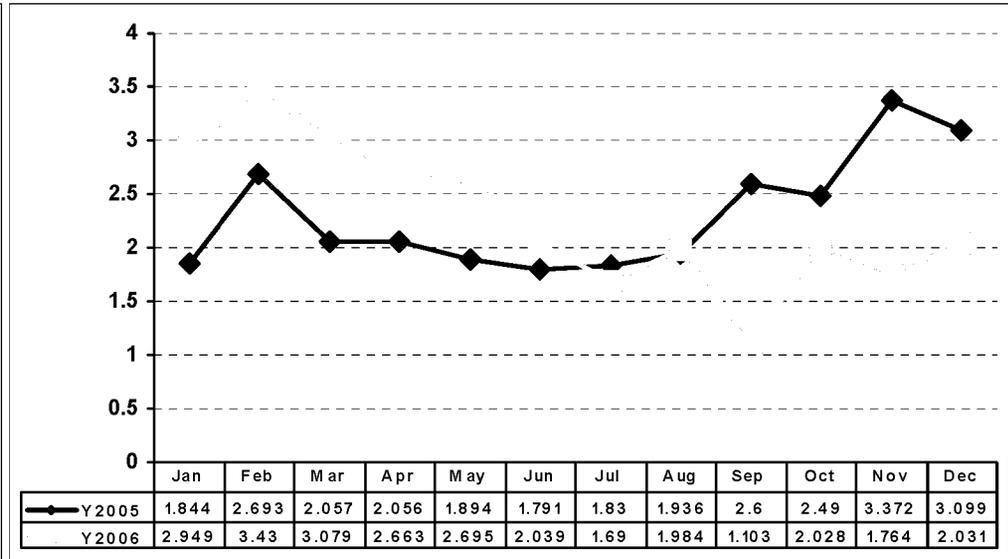
BNC Originations

Stated first time homebuyers have been decreasing

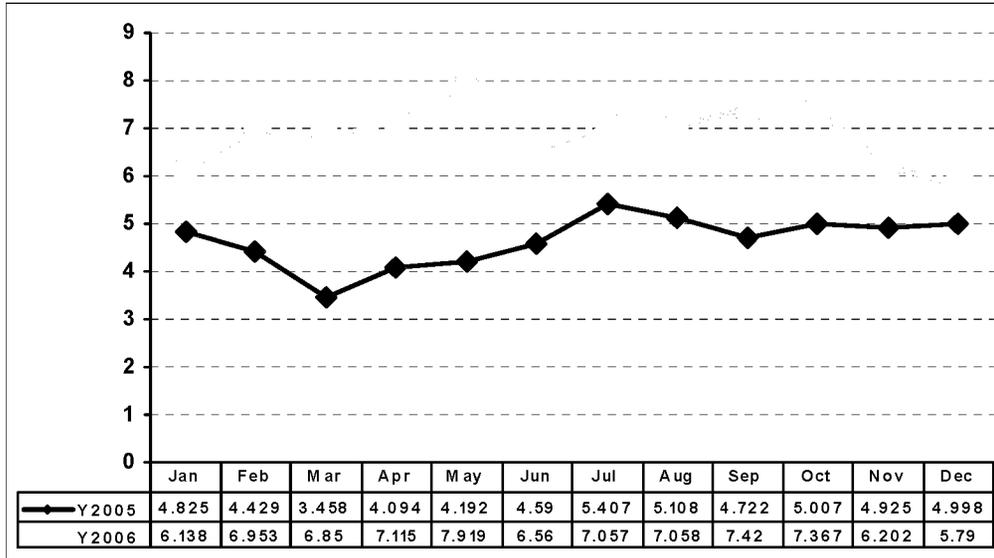
Stated Doc and First Time Homebuyer



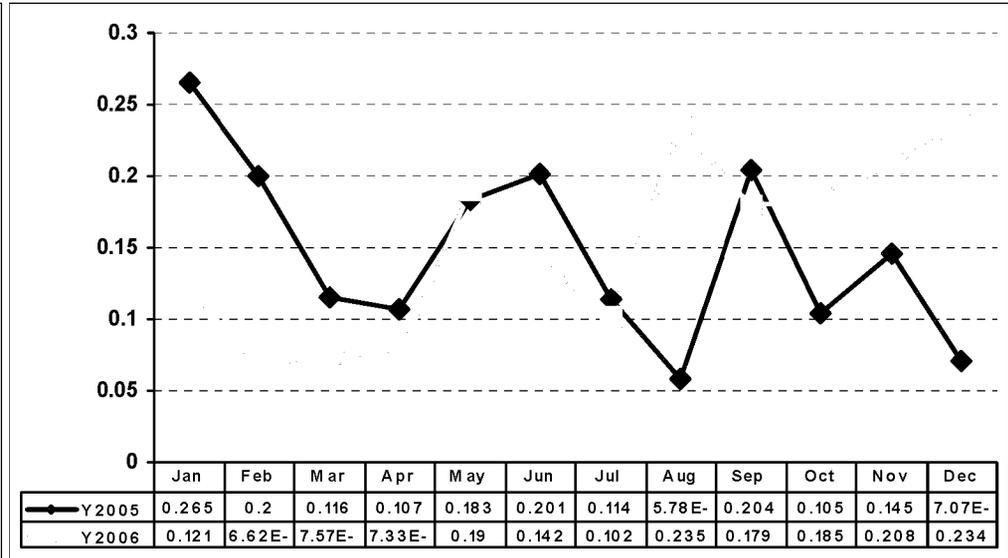
Stated Doc and DTI > 50



Stated Doc and prior BK



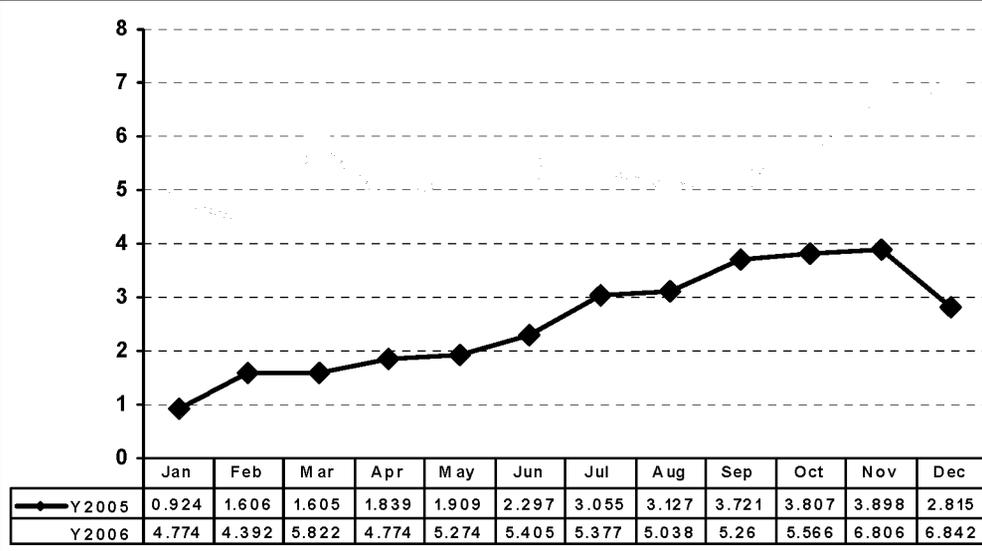
Stated Doc and prior FC



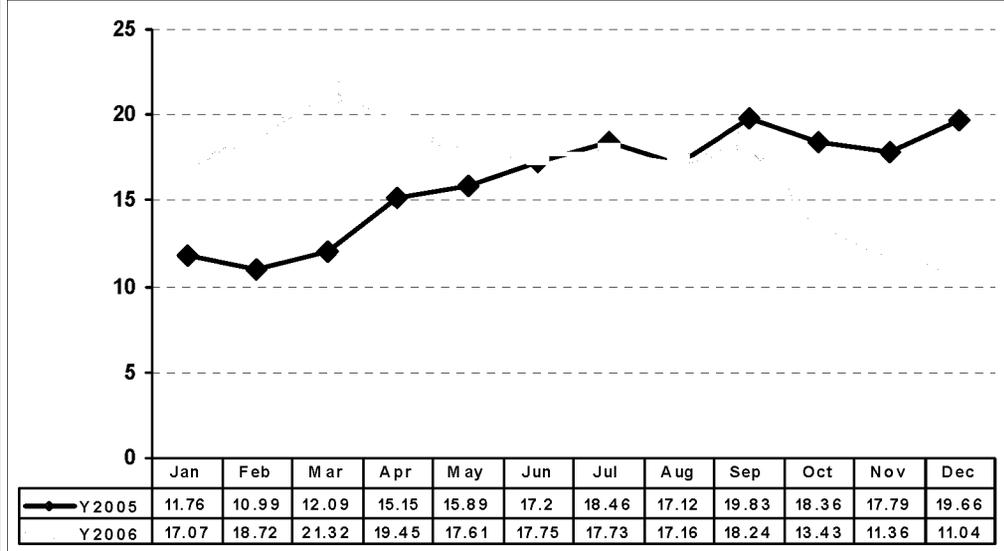
BNC Originations

Although stated doc low FICO loans have been declining, stated loan amounts have been increasing

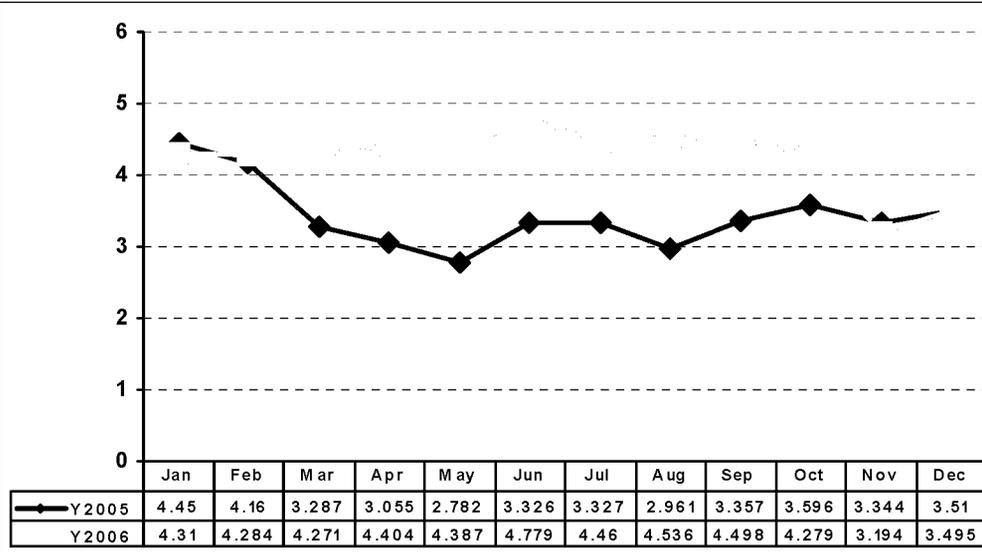
Stated Doc and Amount > 500K



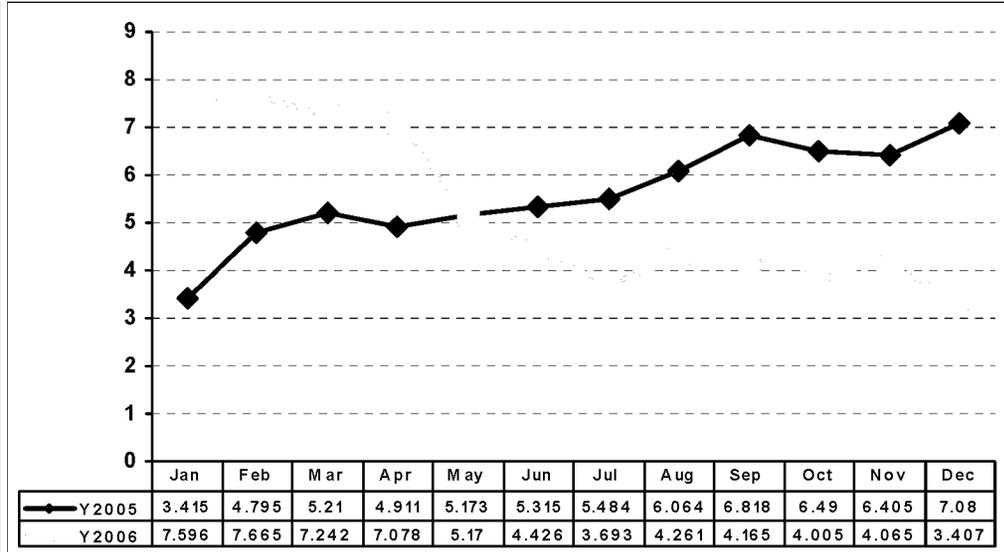
Stated Doc and CLTV > 95



Stated Doc and FICO <= 560



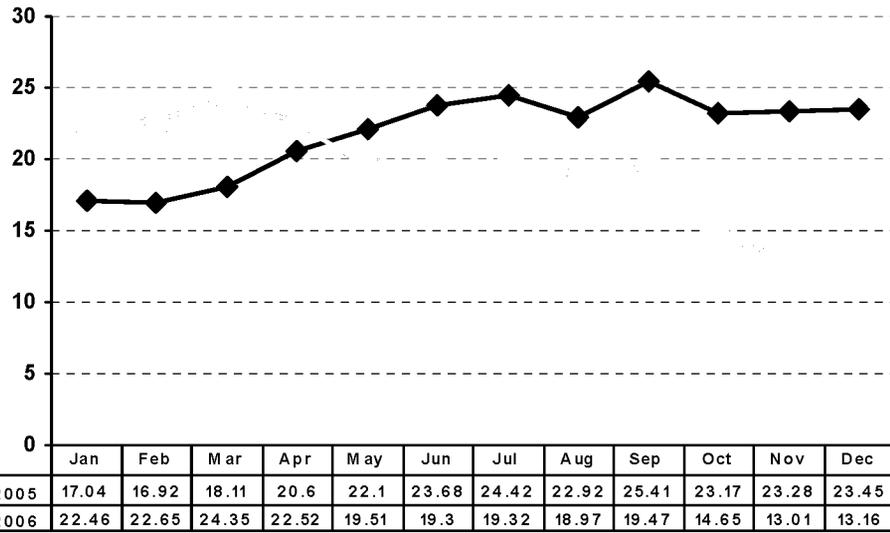
Stated Doc and Non-Owner



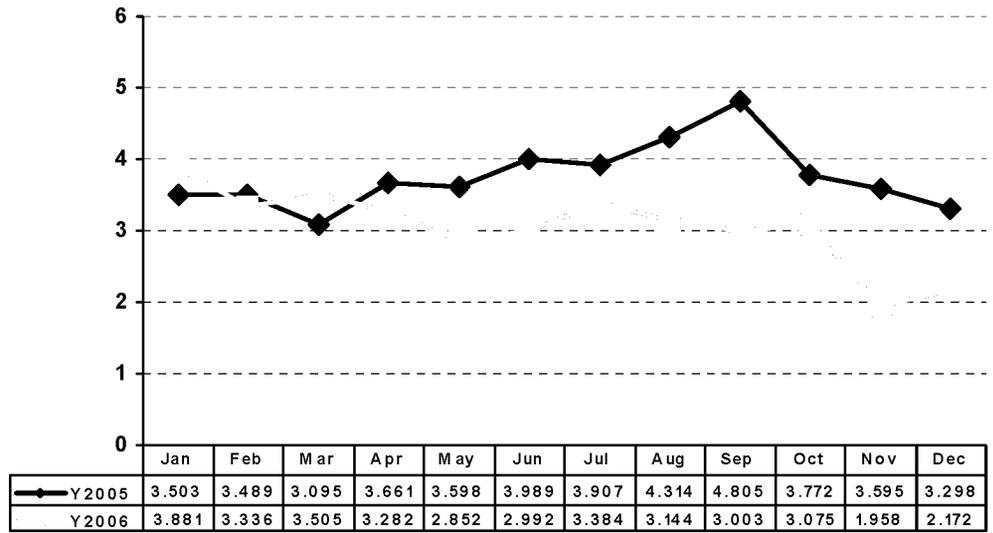
BNC Originations

80/20s stated doc loans continue to decline

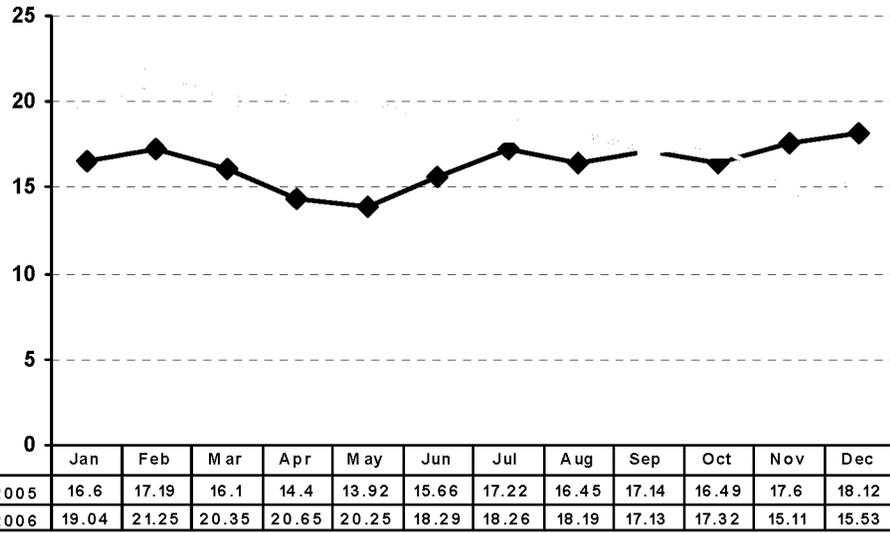
Stated Doc and Purchases



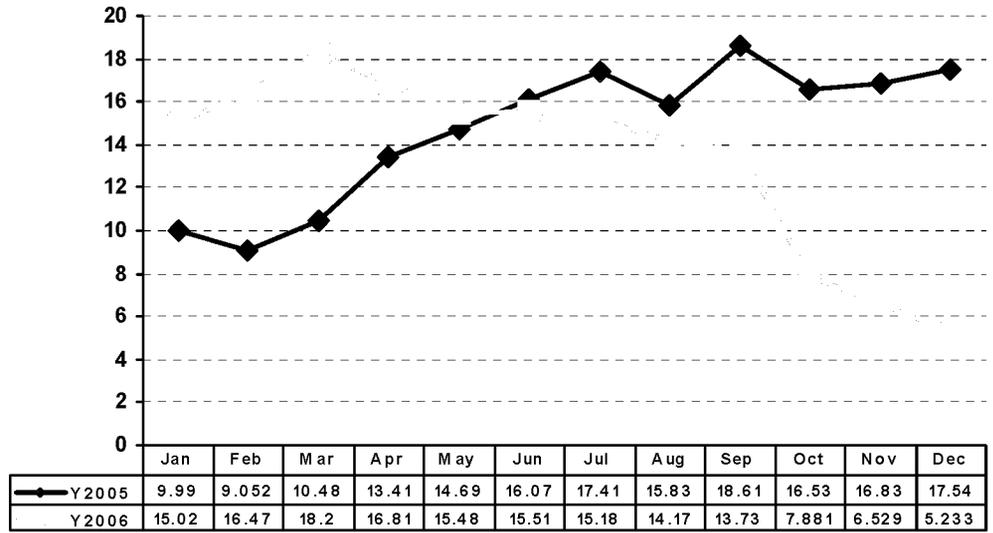
Stated Doc and Condos



Stated Doc and Self Employed



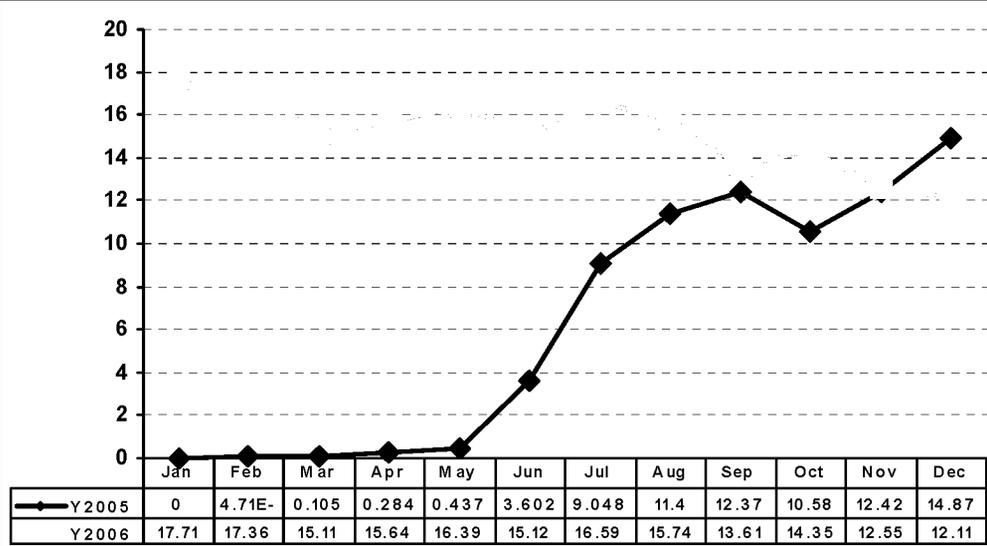
Stated Doc and 80/20s



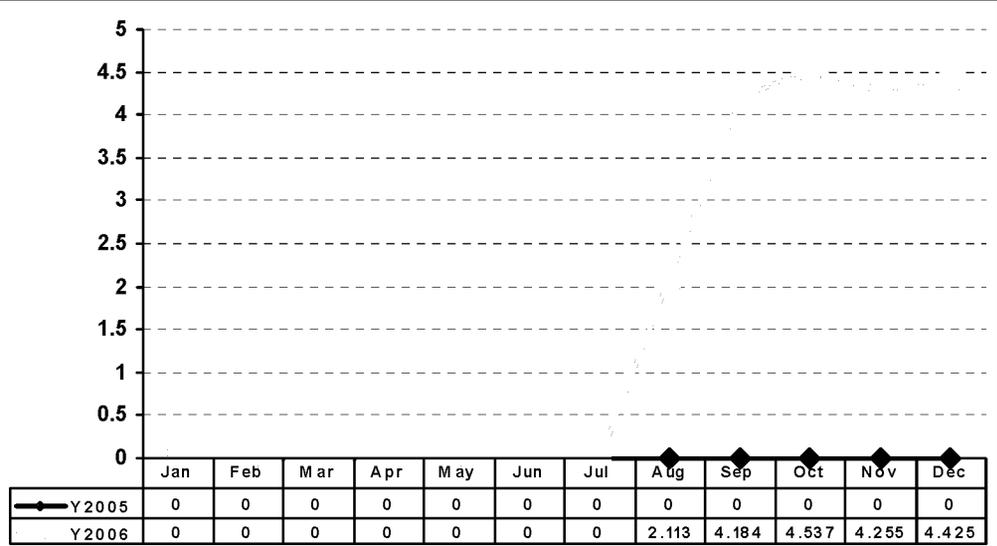
BNC Originations

Stated 50 Year loans account for half of the 50 Year loans

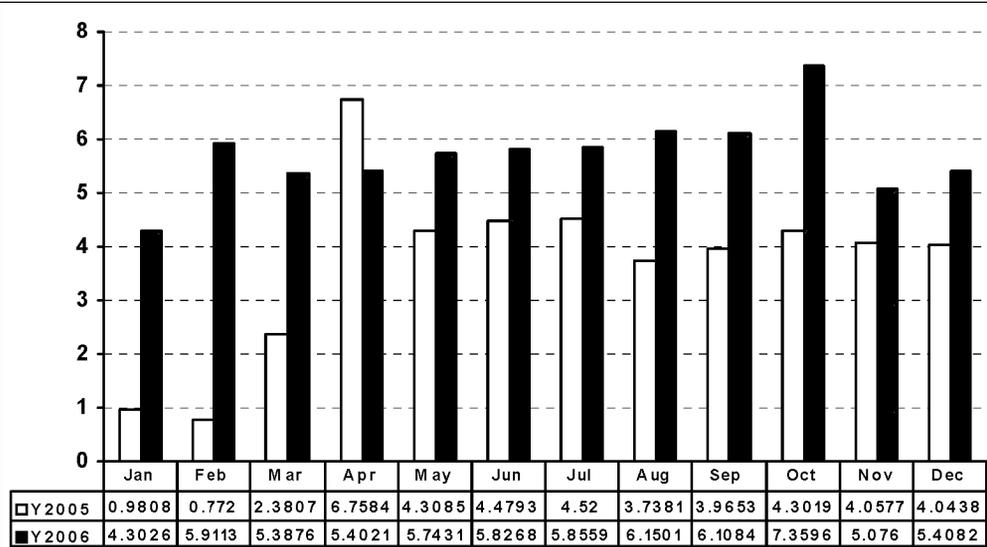
Stated Doc and 40 Years



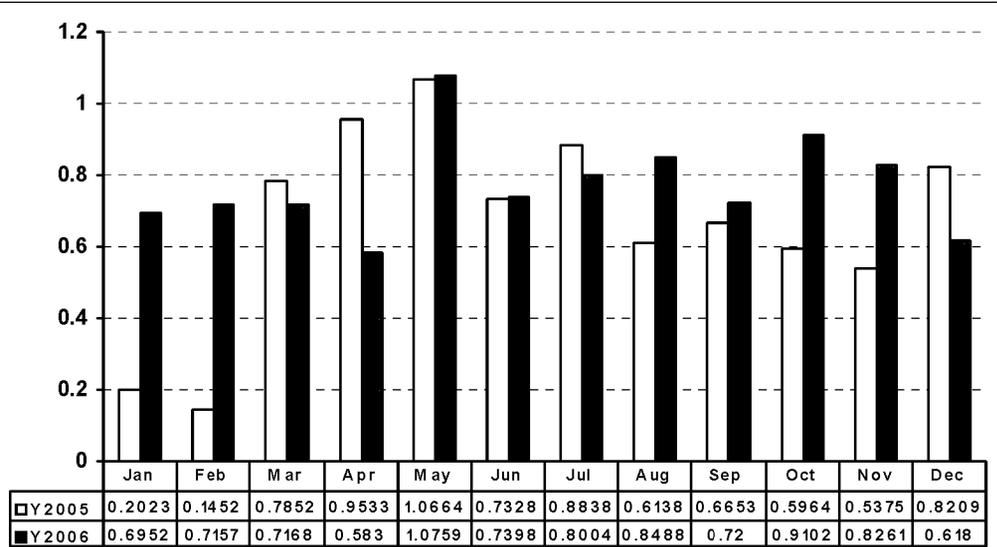
Stated Doc and 50 Years



Stated Doc and 1x30s



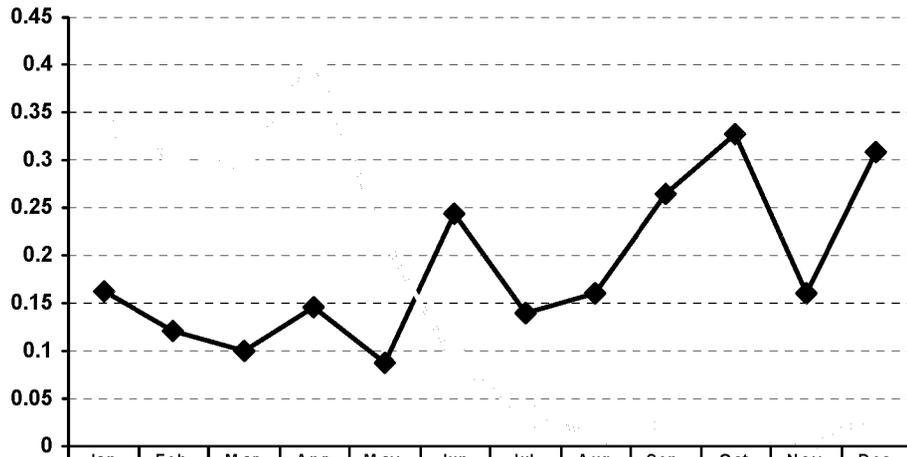
Stated Doc and 1x60s



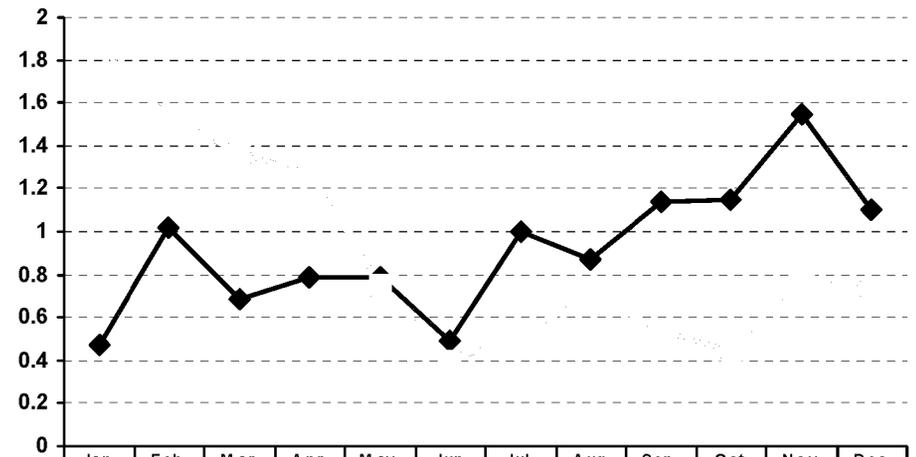
BNC Originations

Non owner, first time homebuyers have been (almost) eliminated

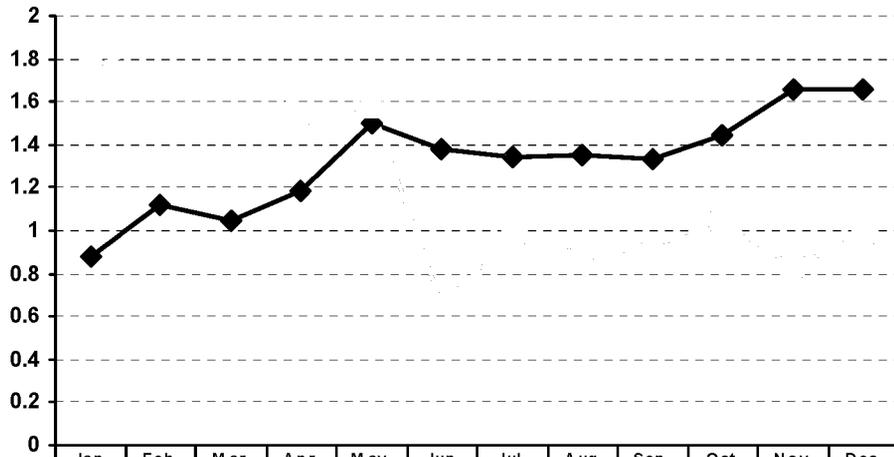
Non-Owner and First Time Homebuyer



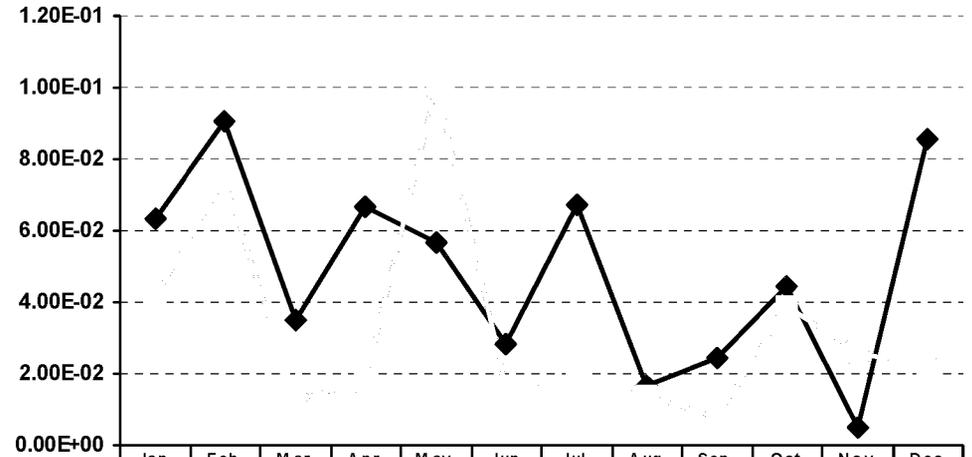
Non-Owner and DTI > 50



Non-Owner and prior BK



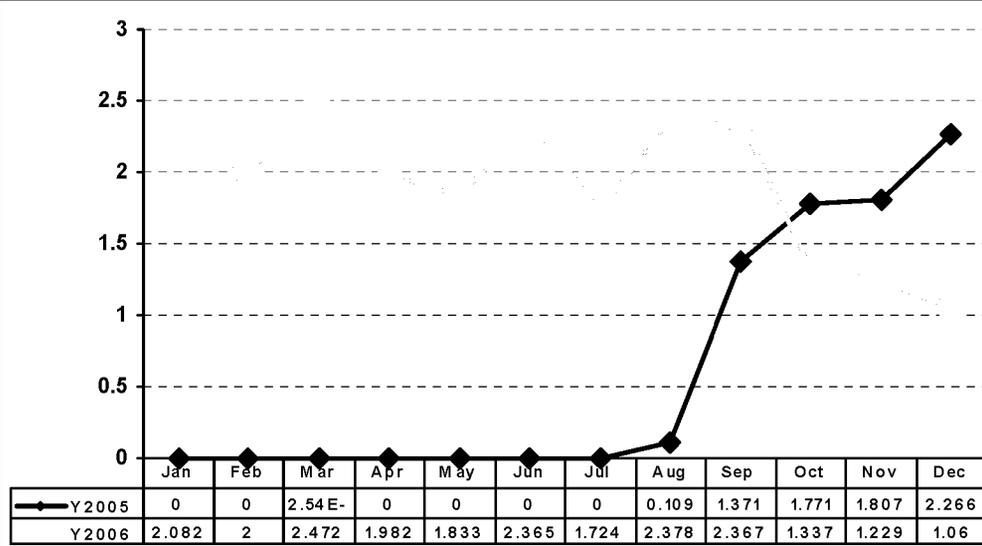
Non-Owner and prior FC



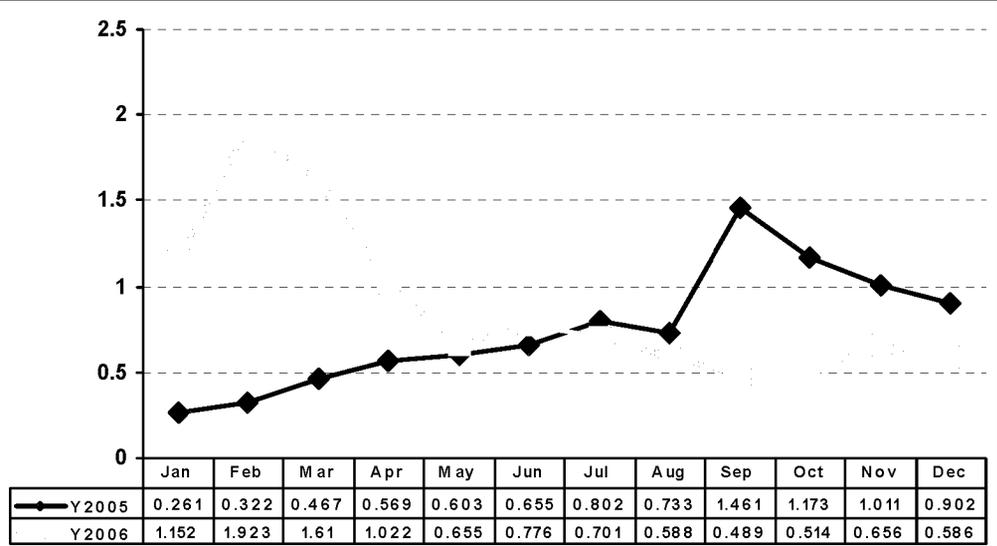
BNC Originations

Non owner, high CLTVs run less than 1.5%

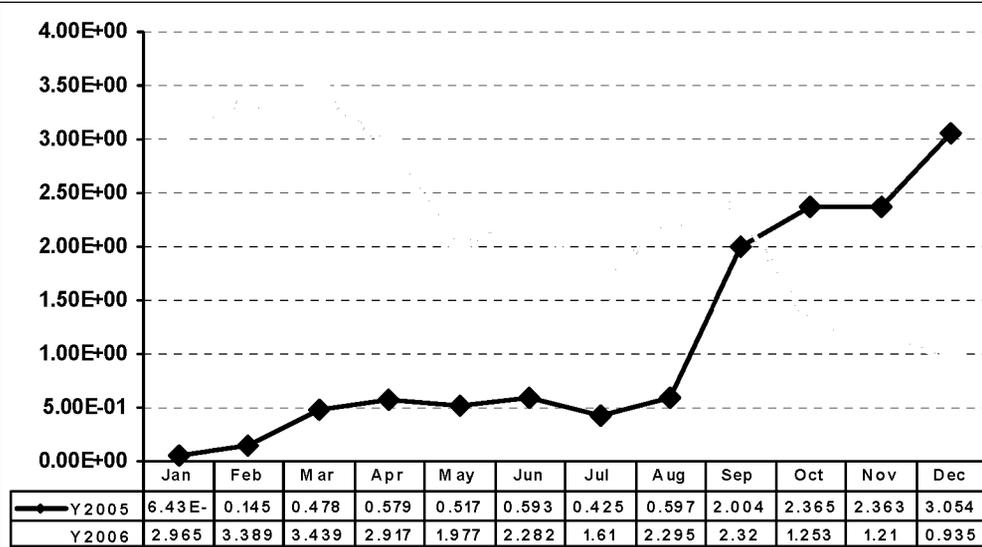
Non-Owner and 80/20s



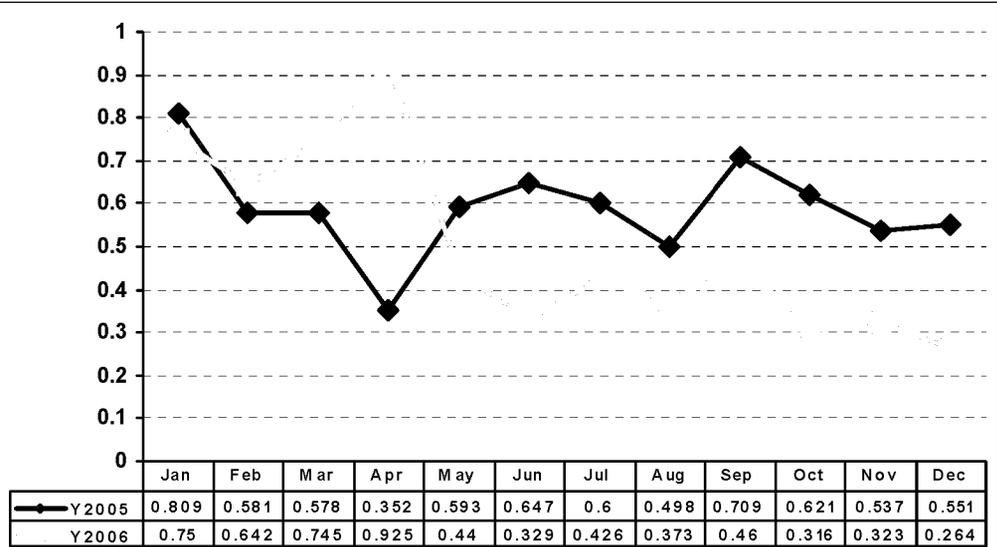
Non-Owner and Amount > 500K



Non-Owner and CLTV > 95



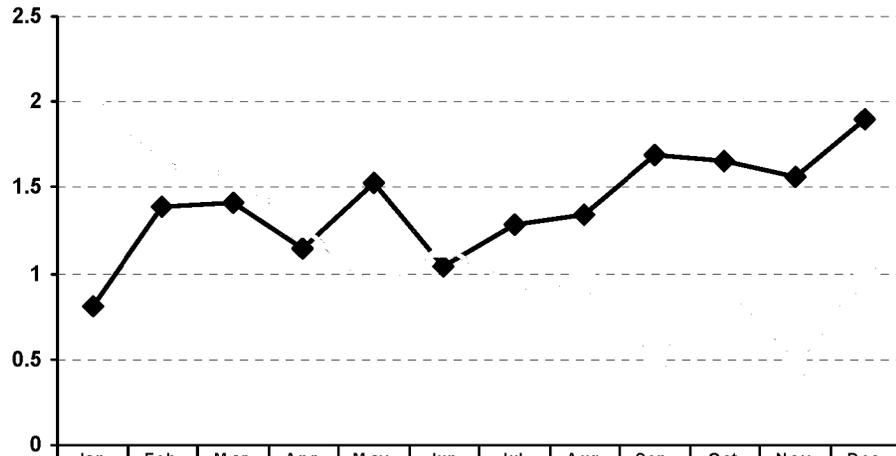
Non-Owner and FICO <= 560



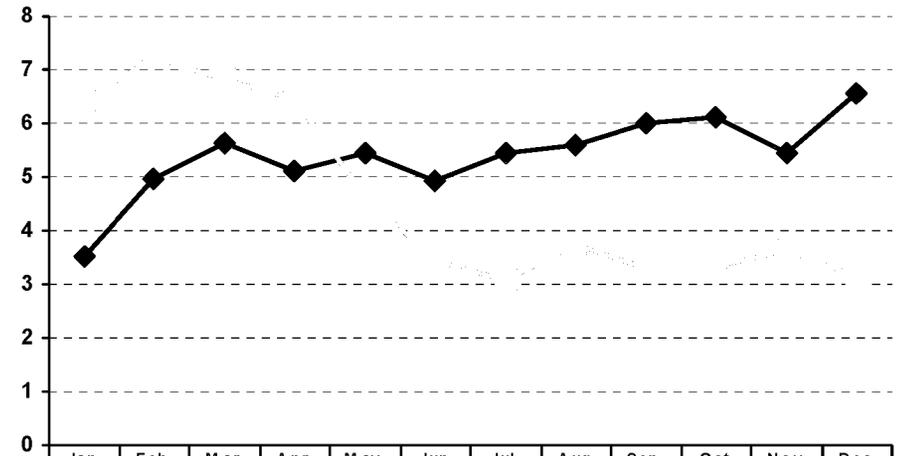
BNC Originations

Non owner stated wage earners continue to decline

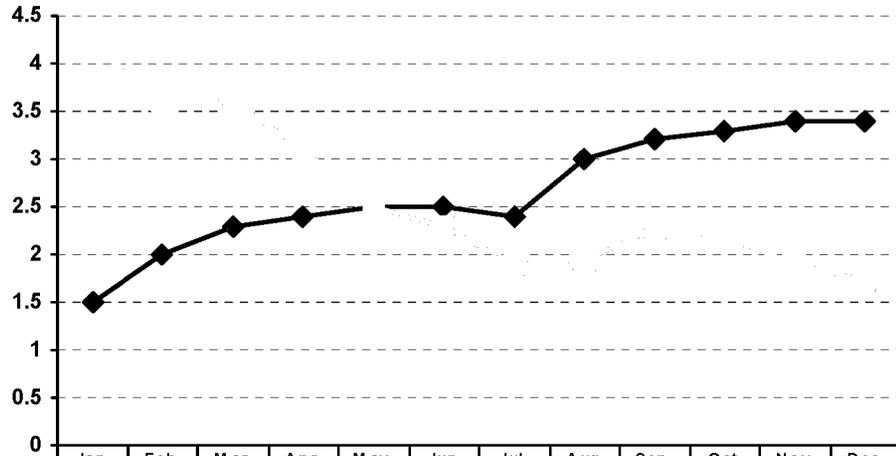
Non-Owner and Condos



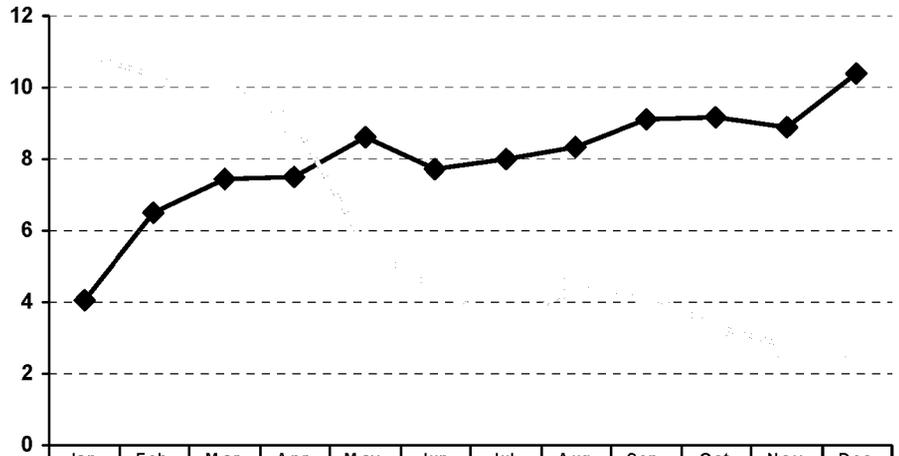
Non-Owner and Self Employed



Non-Owner and Stated Wage Earner



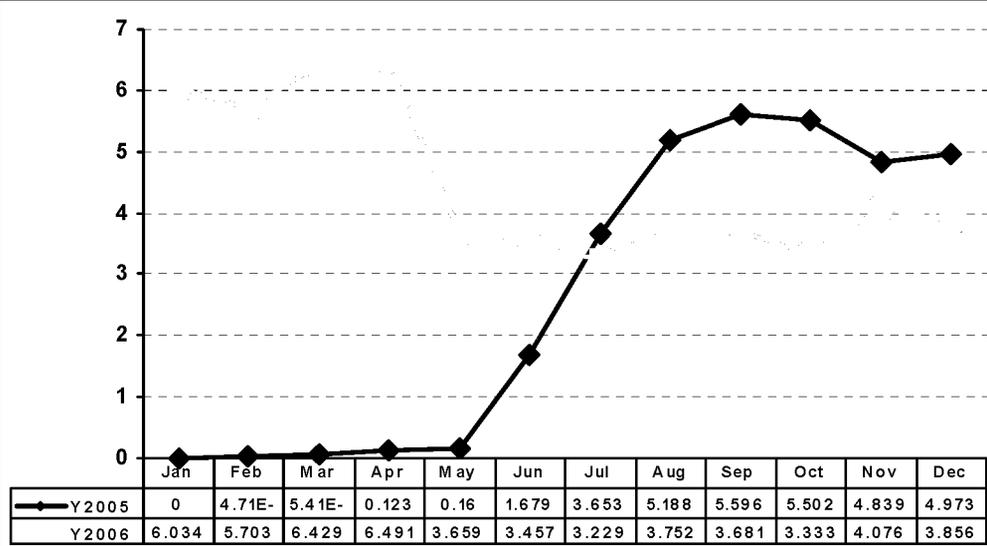
Non-Owner and Purchase



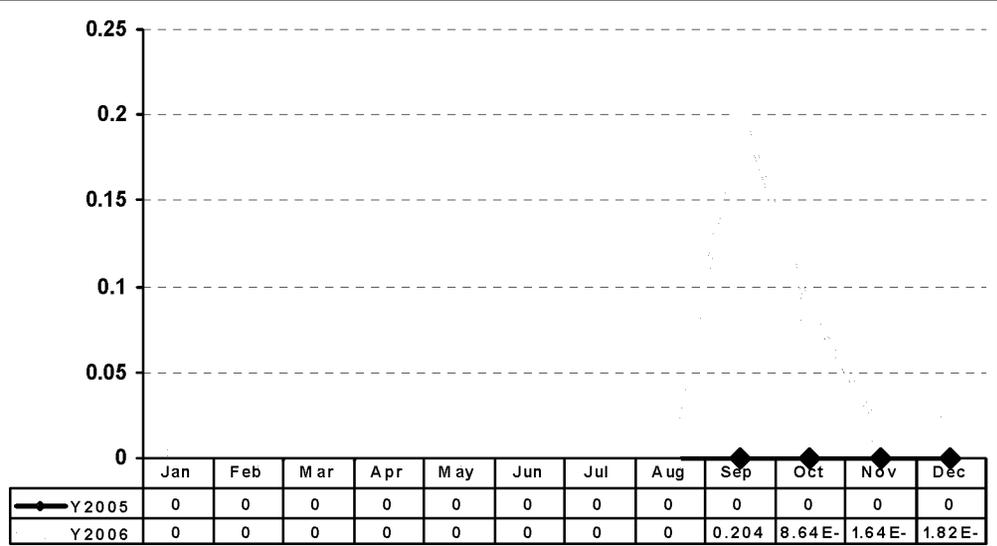
BNC Originations

Non owner 50 Year loans are almost non-existent

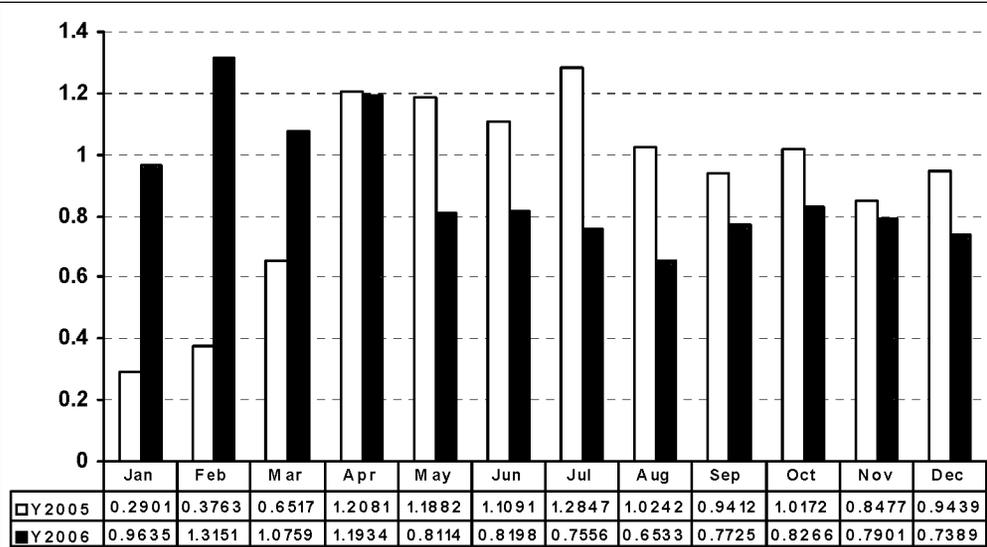
Non-Owner and 40 Years



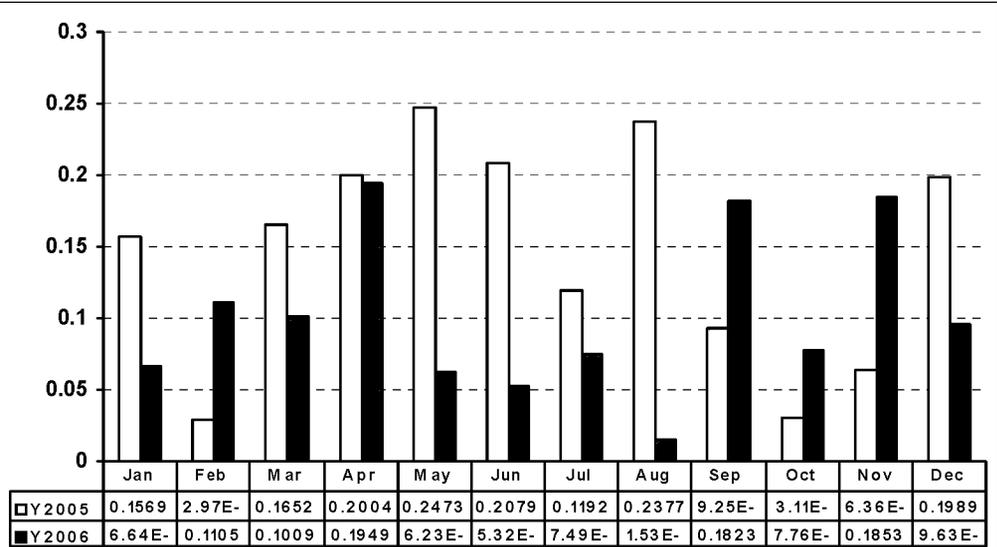
Non-Owner and 50 Years



Non-Owner and 1x30s



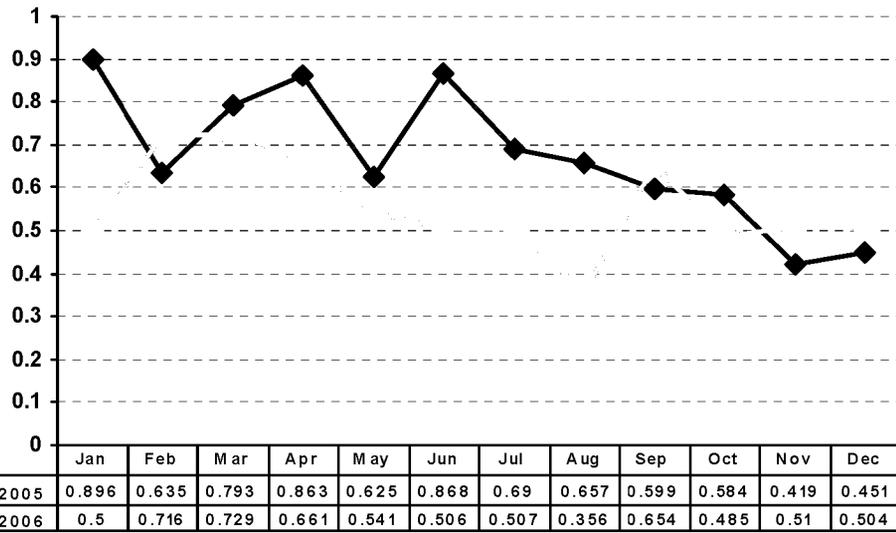
Non-Owner and 1x60s



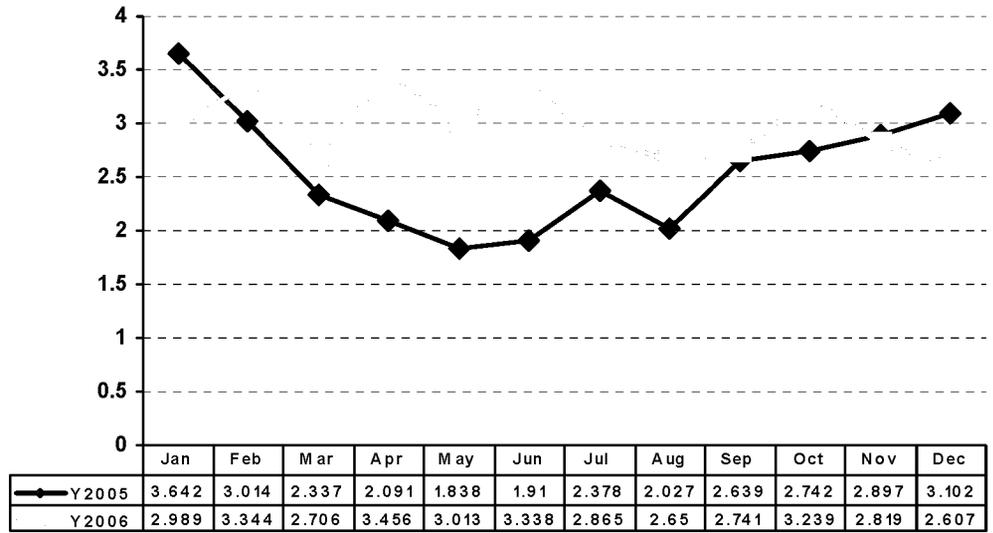
BNC Originations

First time homebuyer loans with low FICO are back to normal levels

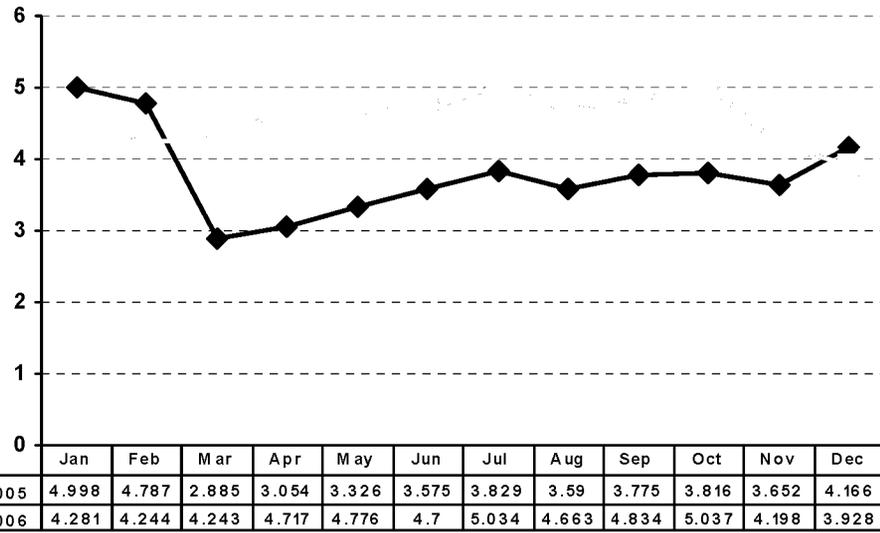
FICO < 580 and First Time Homebuyer



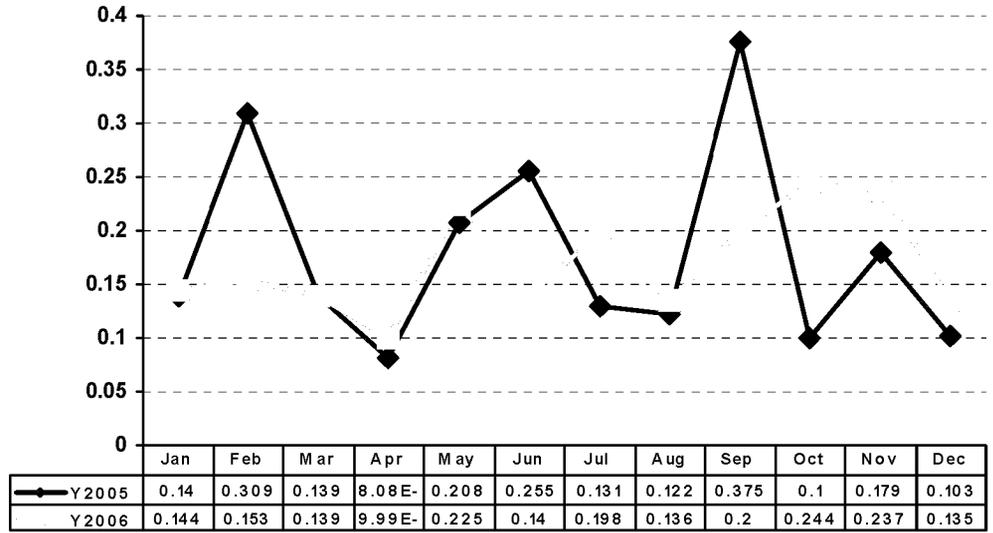
FICO < 580 and DTI > 50



FICO < 580 and prior BK



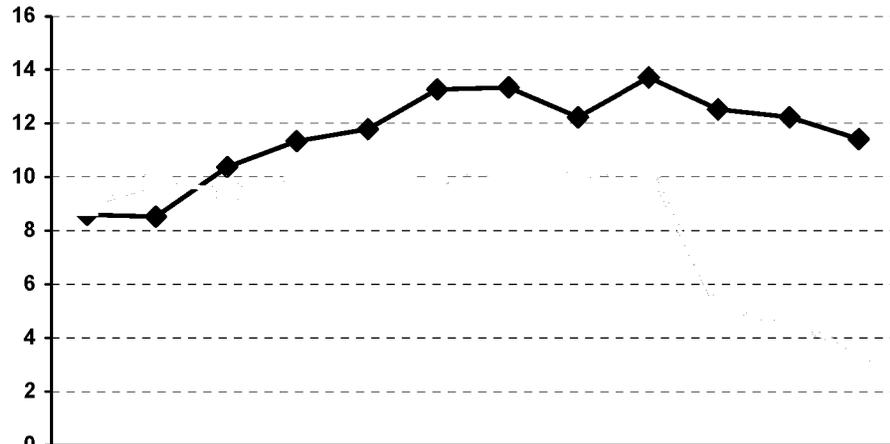
FICO < 580 and prior FC



BNC Originations

Low FICO 80/20s production is cut by more than half since September

FICO < 580 and 80/20s



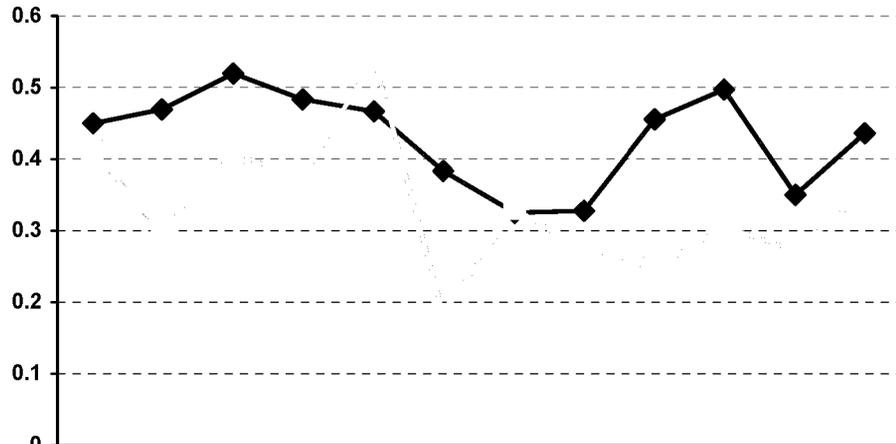
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	8.563	8.516	10.35	11.35	11.78	13.27	13.36	12.21	13.7	12.52	12.22	11.41
Y2006	8.983	9.724	9.568	10.03	9.964	10.13	10.09	10.01	10.34	5.061	4.623	3.51

FICO < 580 and Amount > 750K



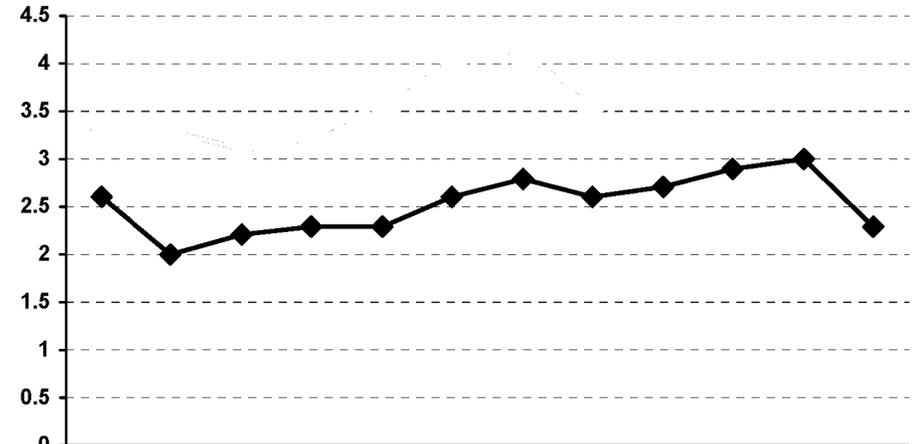
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	0	0	0	0	0	0	0	0	0	0	0	0
Y2006	0	0	0	0	6.25E-	0	0	6.65E-	0	0	0	0.232

FICO < 580 and CLTV > 95



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	0.449	0.47	0.52	0.484	0.468	0.383	0.325	0.327	0.455	0.496	0.351	0.436
Y2006	0.411	0.298	0.408	0.372	0.542	0.183	0.33	0.272	0.247	0.307	0.273	0.352

FICO < 580 and Wage Earner

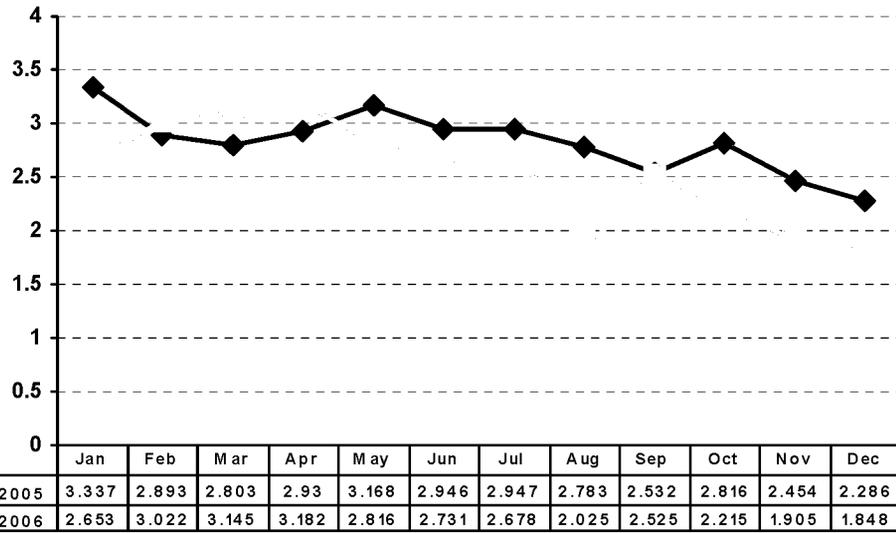


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	2.6	2	2.2	2.3	2.3	2.6	2.8	2.6	2.7	2.9	3	2.3
Y2006	3.2	3.3	3.1	3.2	3.6	4	4.1	3.6				

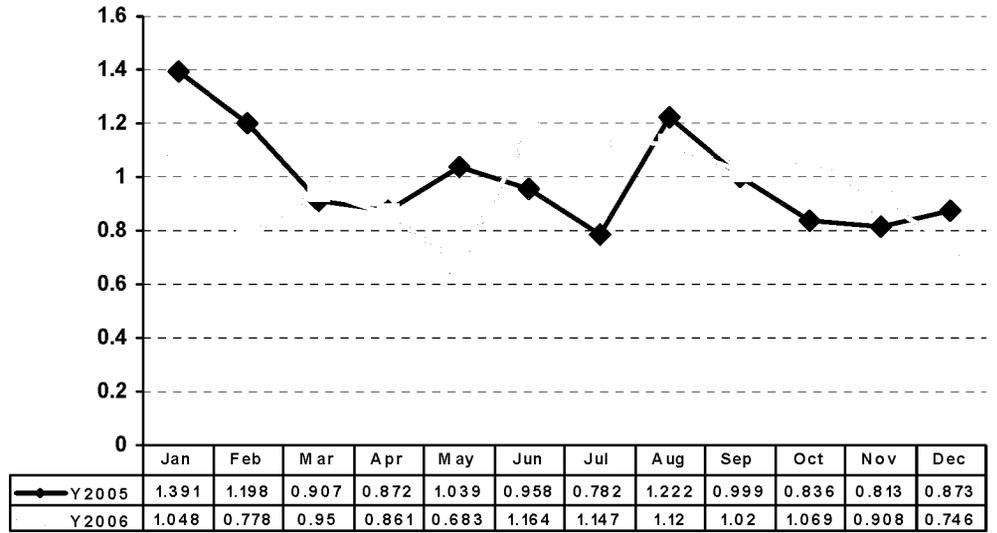
BNC Originations

No NINA loans were produced outside the FICO guidelines

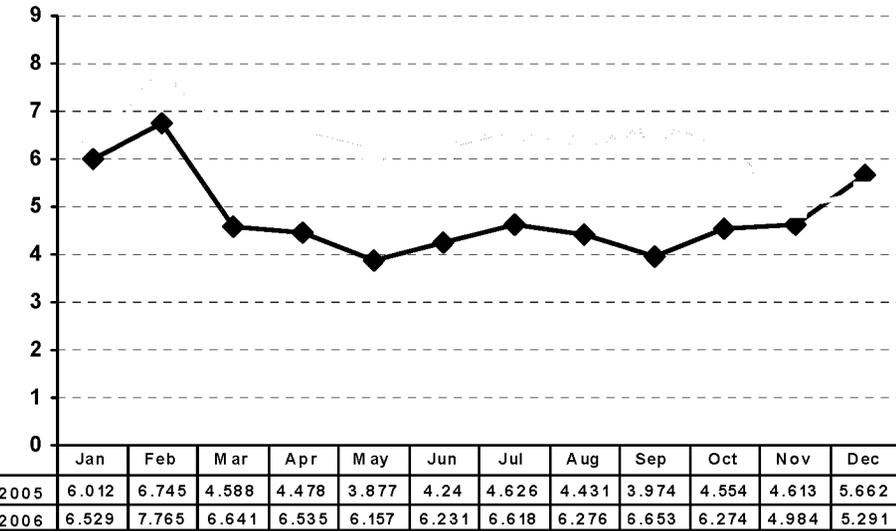
FICO < 580 and Purchase



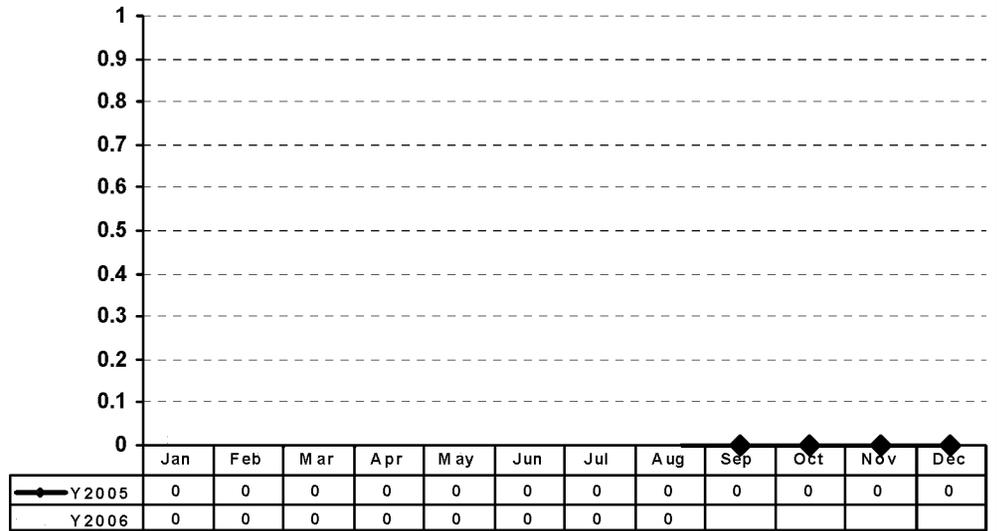
FICO < 580 and Condos



FICO < 580 and Self Employed



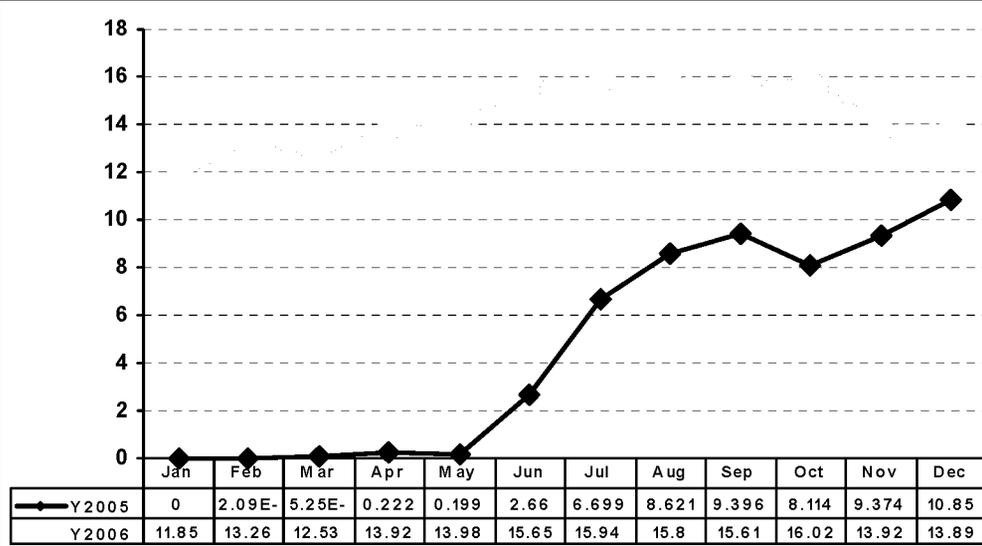
FICO < 680 and NINA



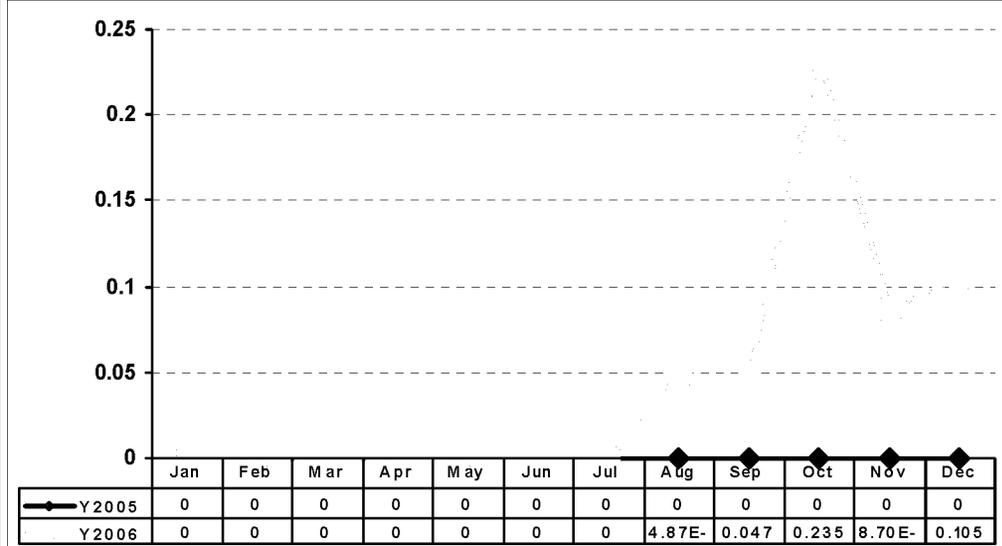
BNC Originations

The 40 Year loans with FICOs < 580 dropped 2 points in November

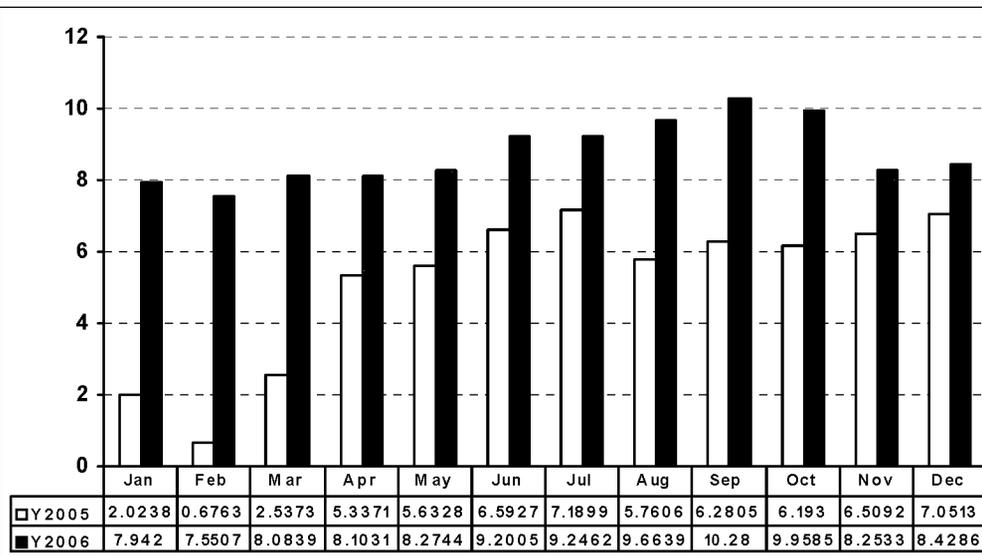
FICO < 580 and 40 Years



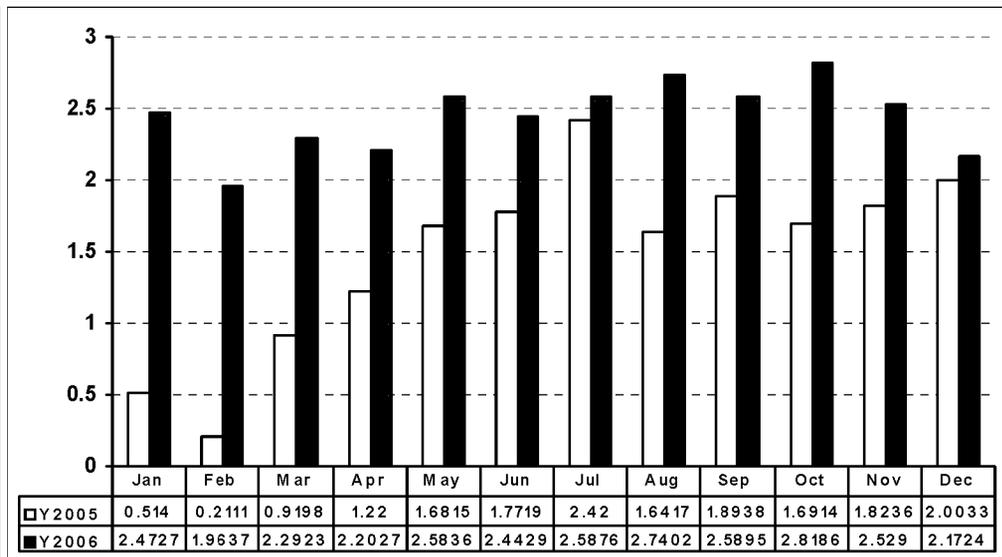
FICO < 580 and 50 Years



FICO < 580 and 1x30s



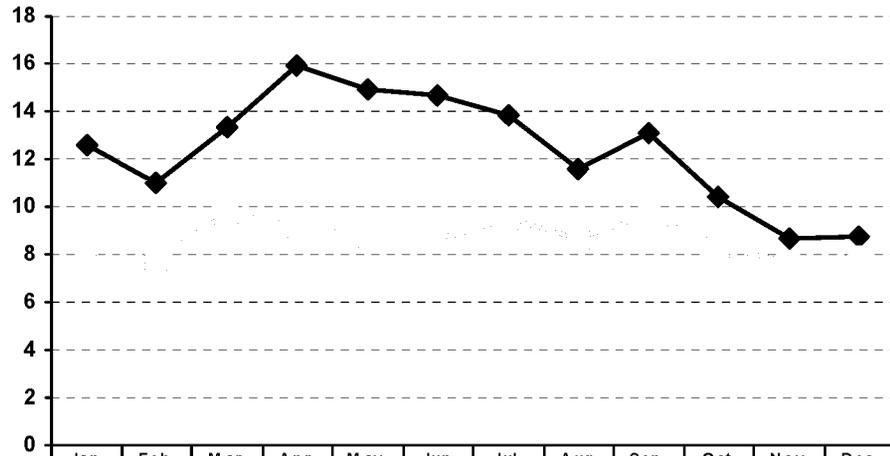
FICO < 580 and 1x60s



BNC Originations

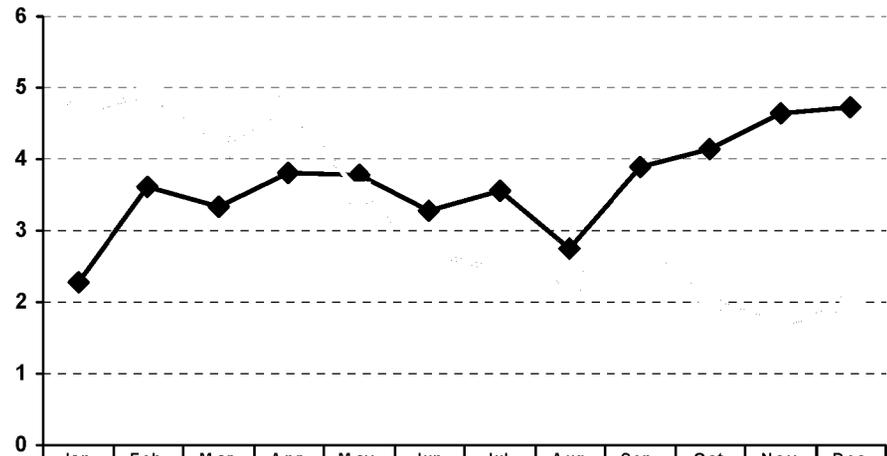
High DTIs have been dropping for purchases

Purchase and First Time Homebuyer



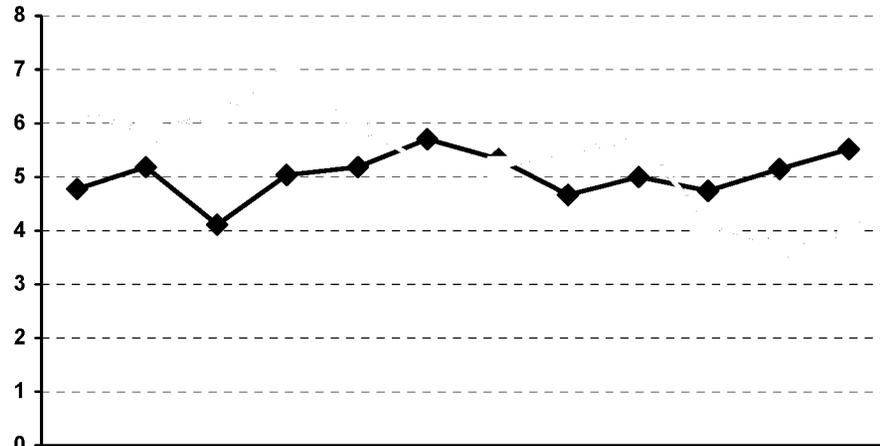
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	12.58	10.98	13.32	15.89	14.88	14.64	13.81	11.55	13.08	10.38	8.659	8.745
Y2006	7.952	7.773	9.749	9.187	8.721	8.561	9.499	8.69	9.63	8.37	7.664	7.924

Purchase and DTI > 50



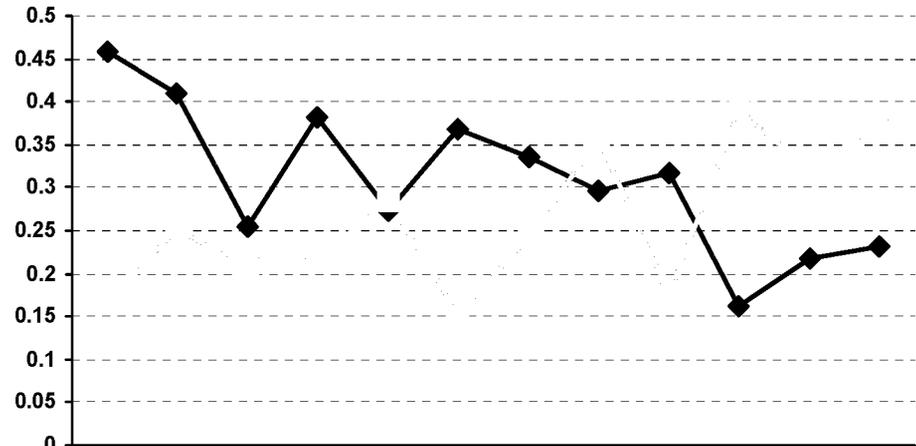
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	2.287	3.611	3.32	3.818	3.79	3.272	3.543	2.742	3.885	4.147	4.632	4.735
Y2006	4.636	4.906	4.171	4.721	3.537	2.695	2.449	2.318	2.803	2.032	1.69	1.942

Purchase and prior BK



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	4.784	5.185	4.125	5.024	5.185	5.719	5.351	4.658	5.007	4.743	5.142	5.522
Y2006	6.231	5.85	6.151	7.041	5.955	5.205	5.189	5.484	5.709	4.166	3.702	3.954

Purchase and prior FC

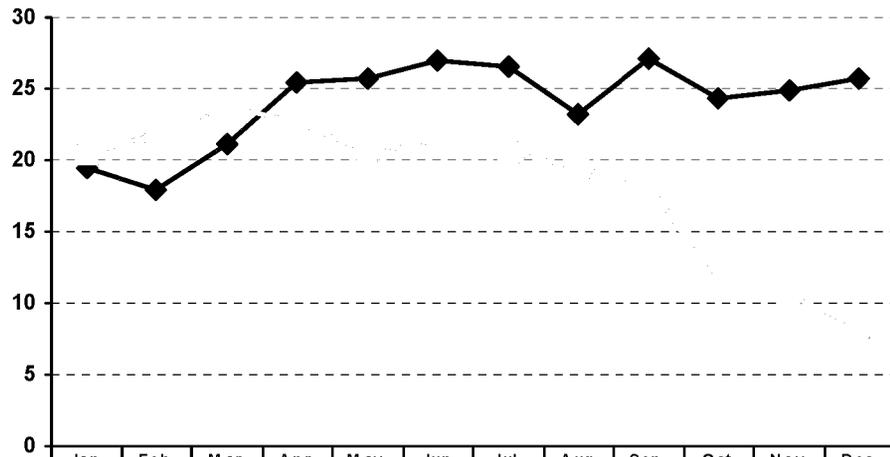


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	0.457	0.41	0.255	0.382	0.273	0.368	0.337	0.297	0.317	0.162	0.218	0.231
Y2006	0.163	0.252	0.206	0.219	0.284	0.152	0.243	0.356	0.176	0.388	0.321	0.366

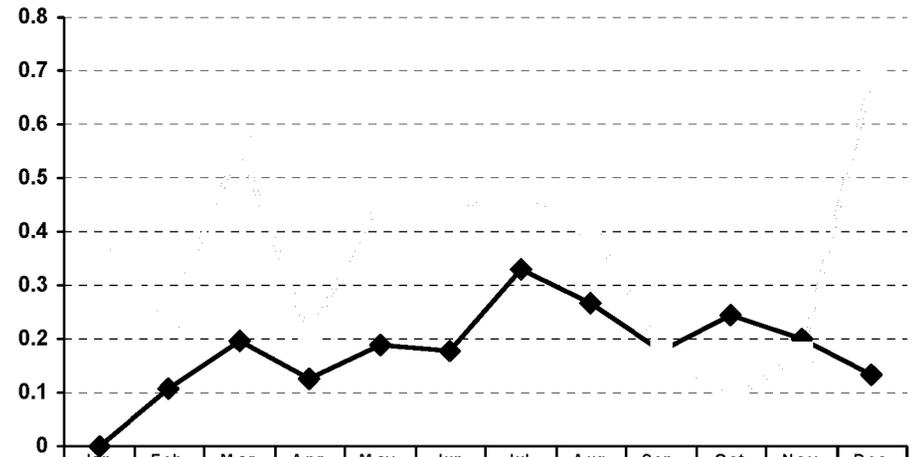
BNC Originations

Prepayment coverage continues to drop on the purchases

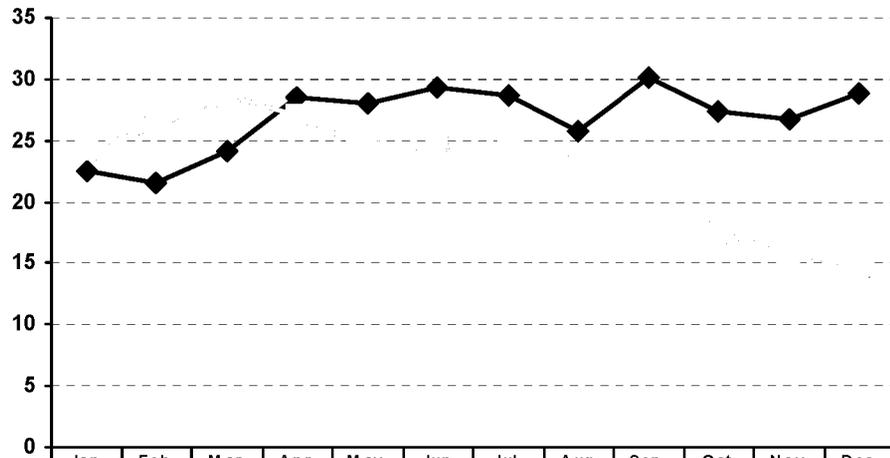
Purchase and 80/20s ↑



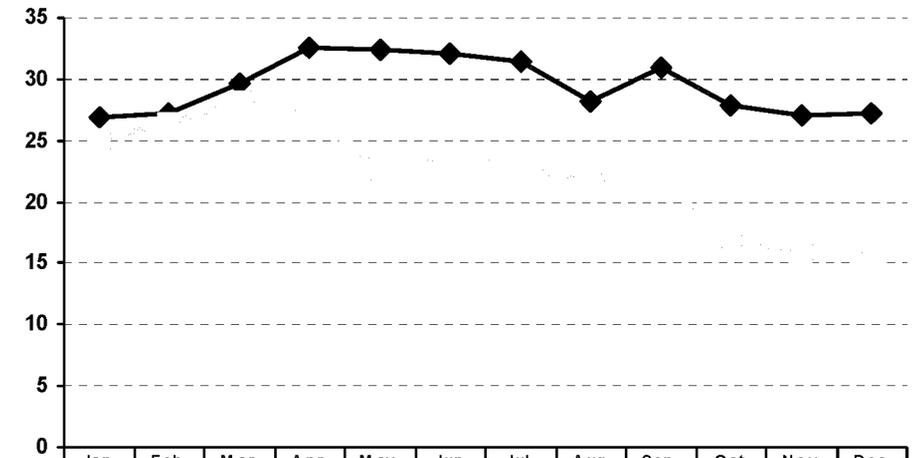
Purchase and Amount > 750K ↓



Purchase and CLTV > 95 ↑



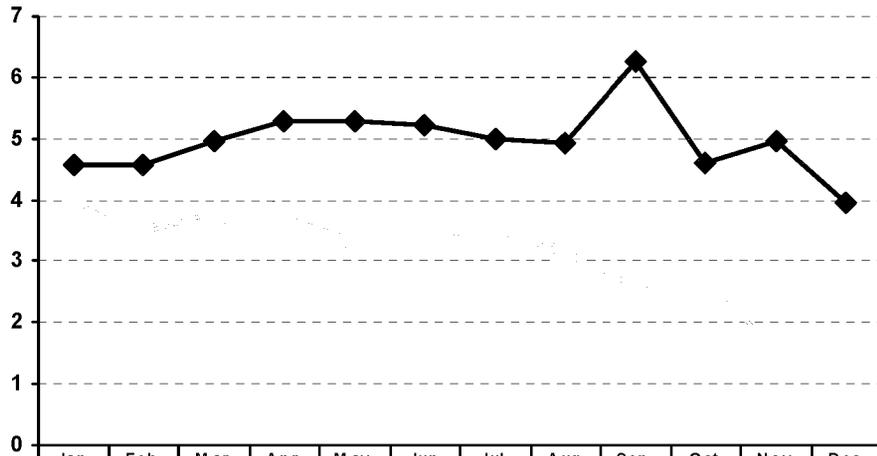
Purchase and Prepayment Penalty ↑



BNC Originations

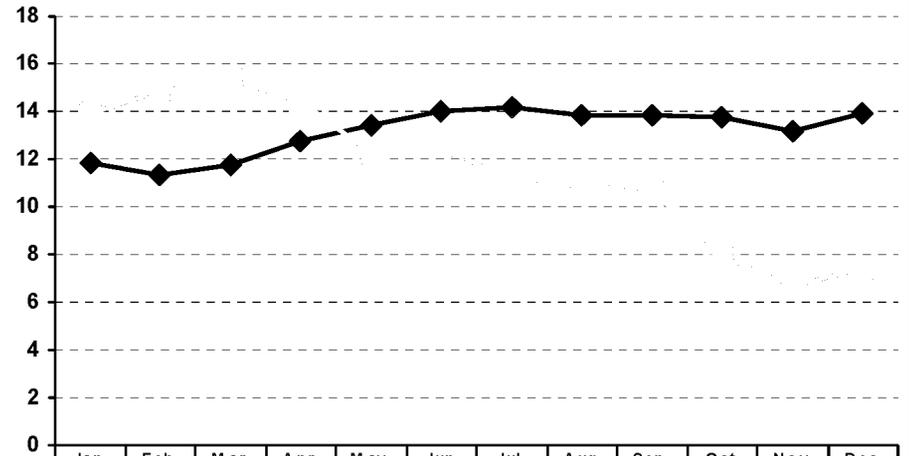
Self employed and purchases have been dropping as well

Purchase and Condos 



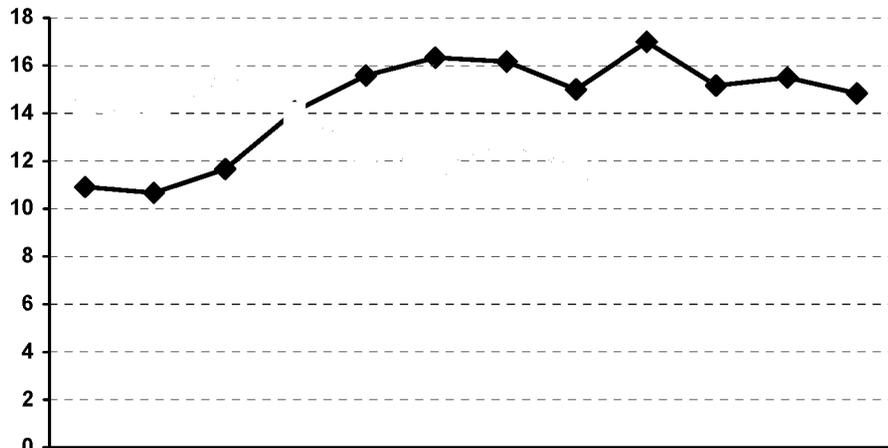
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	4.581	4.582	4.95	5.282	5.272	5.215	4.986	4.915	6.262	4.611	4.954	3.961
Y2006	4.041	3.461	3.785	3.807	3.397	3.359	3.499	3.159	2.602	2.738	1.513	1.451

Purchase and Self Employed 



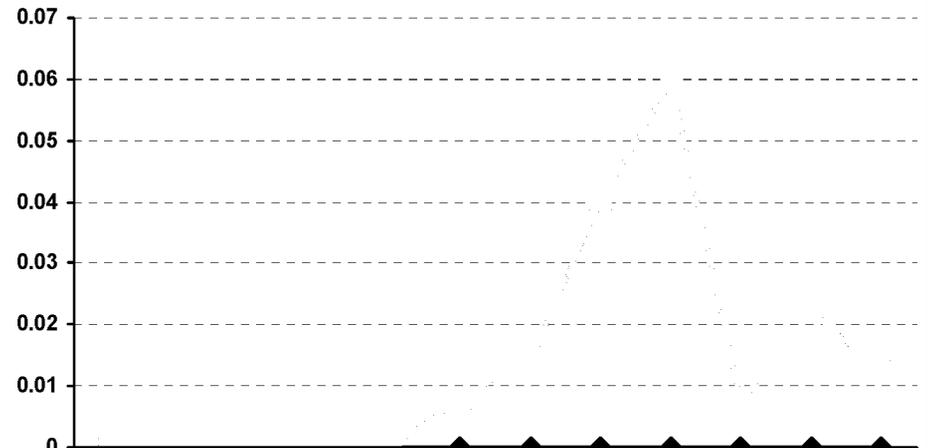
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	11.8	11.35	11.74	12.71	13.44	13.98	14.13	13.83	13.87	13.78	13.14	13.95
Y2006	13.88	14.82	15.36	14.45	12.28	12.5	11.12	11.19	10.69	7.949	6.645	7.404

Purchase and Wage Earners 



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	10.9	10.7	11.7	14.1	15.6	16.3	16.2	15	17	15.2	15.5	14.8
Y2006	14.2	13.8	15.6	14	12.4	11.8	12.8	11.7				

Purchase and NINA 

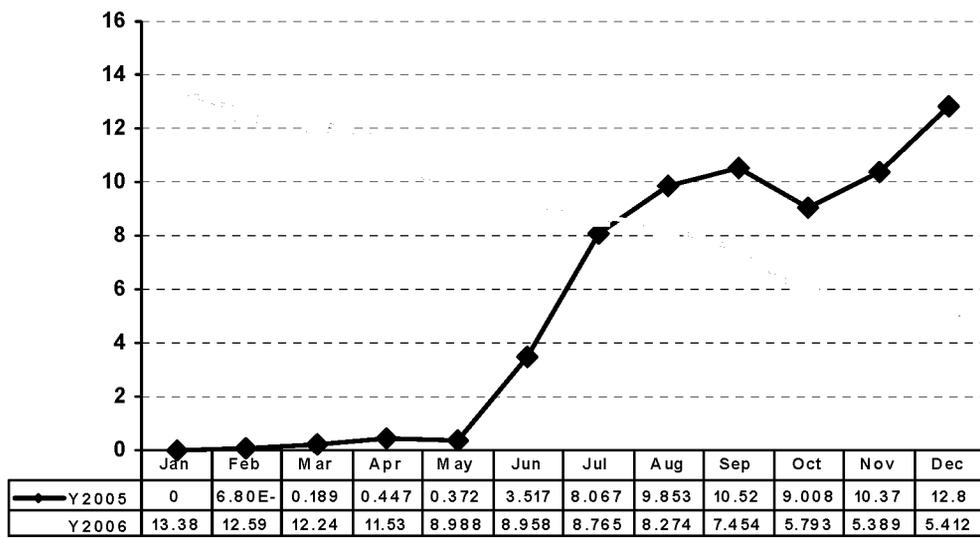


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	0	0	0	0	0	0	0	0	0	0	0	0
Y2006	0	0	0	0	0	7.78E-	1.44E-	4.01E-	0.06	7.39E-	2.20E-	1.23E-

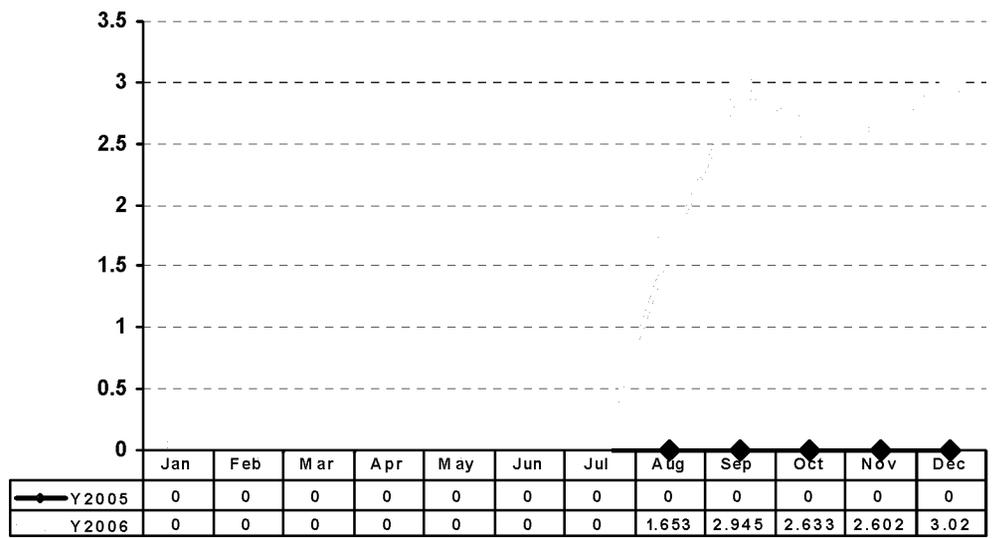
BNC Originations

About one third of 50 Year loans are purchases

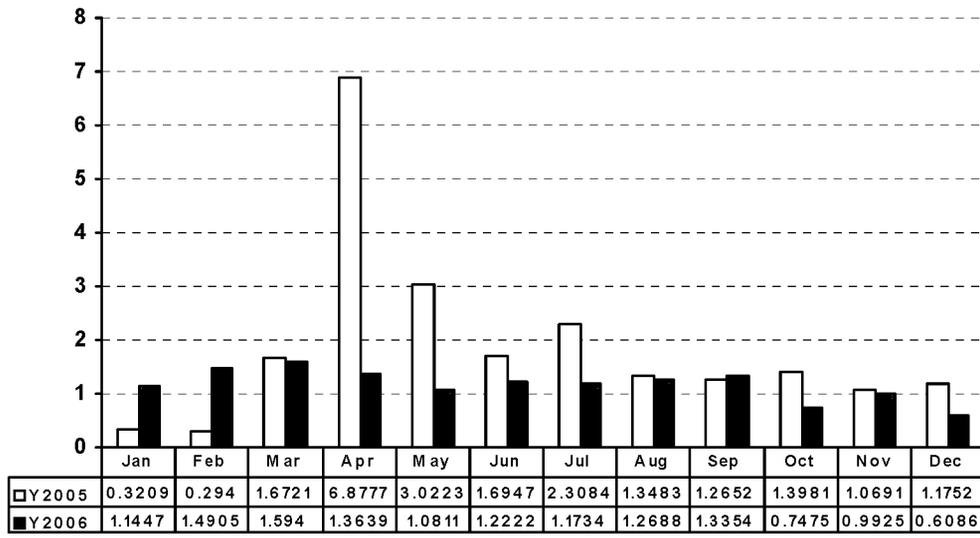
Purchase and 40 Years



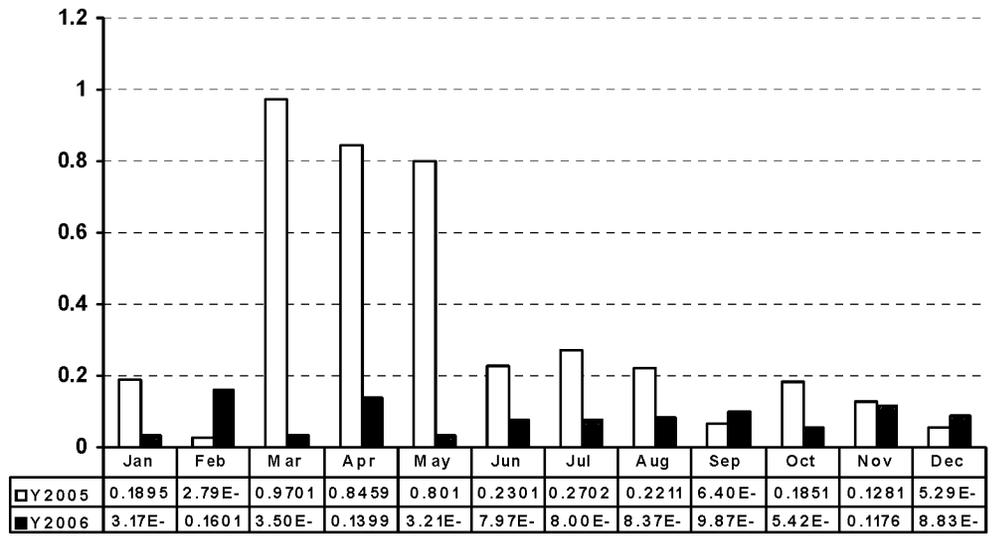
Purchase and 50 Years



Purchase and 1x30s



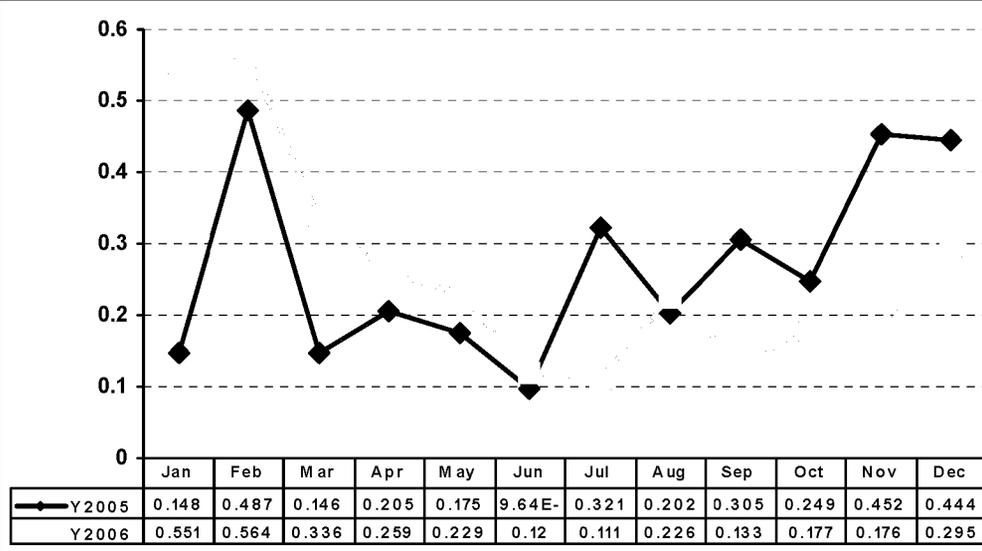
Purchase and 1x60s



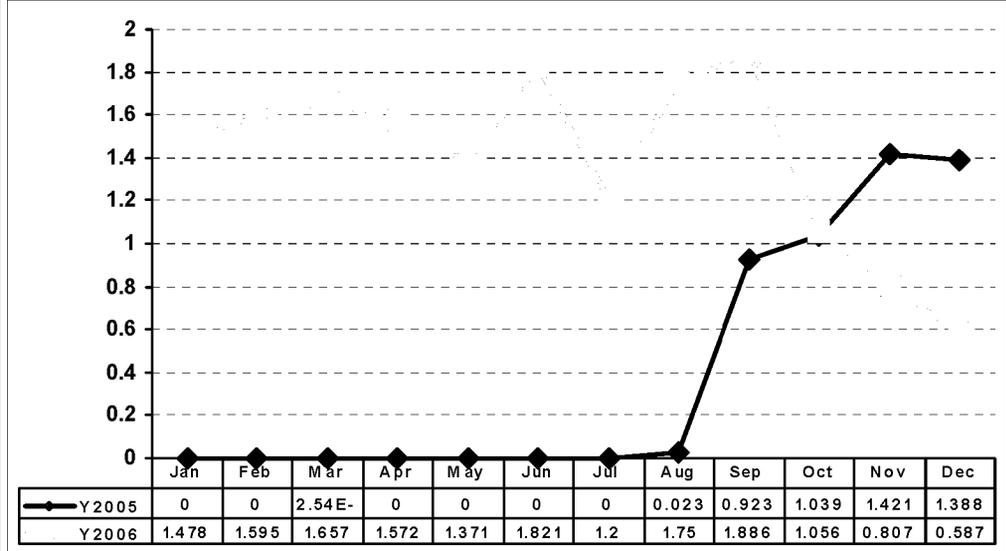
BNC Originations

Stated, non-owner loans have been showing positive trends

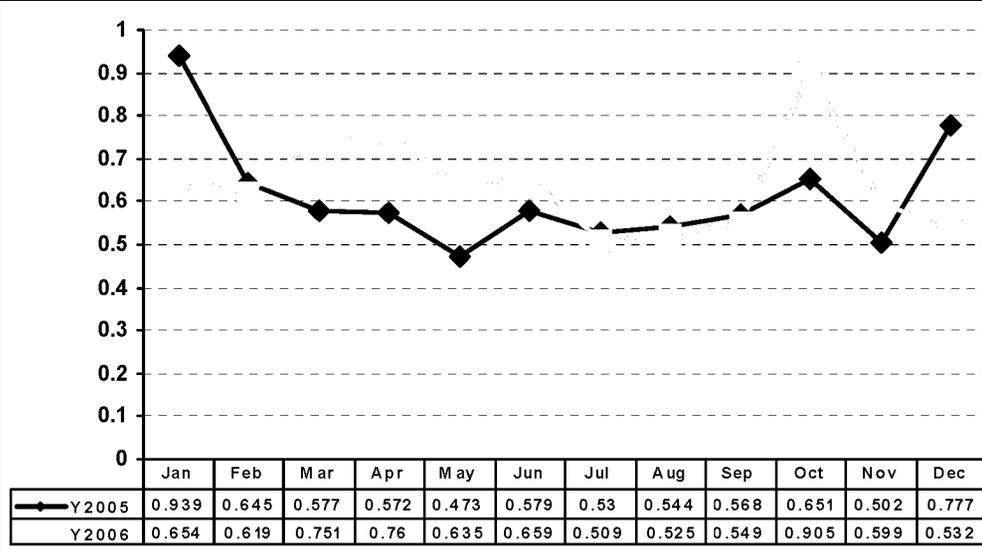
Stated, Non Owner and DTI>50



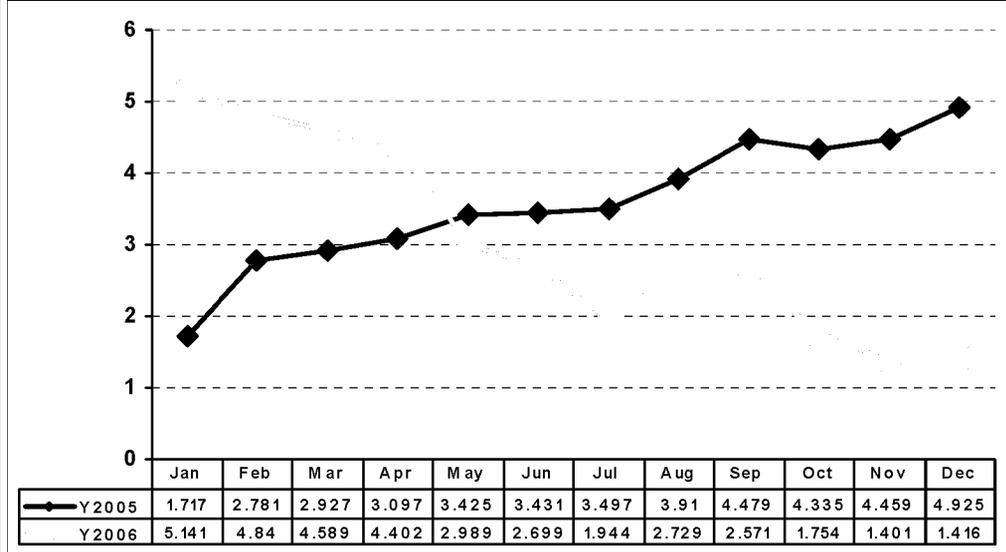
Stated, Non Owner and 80/20s



Stated, Non Owner and FICO <=600



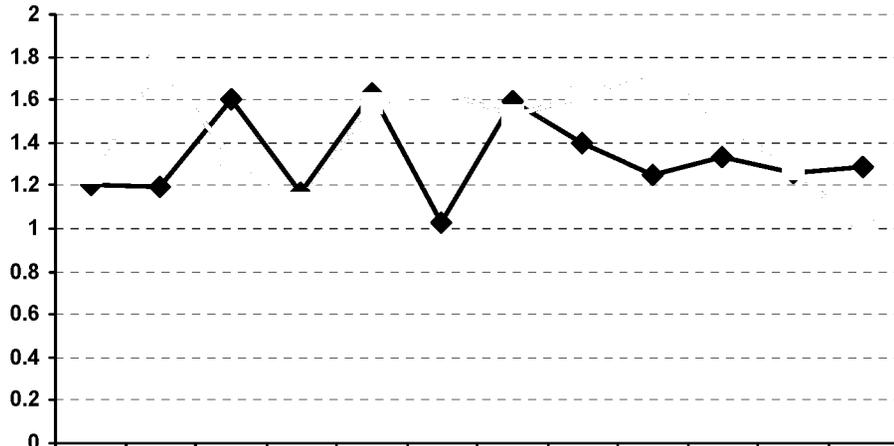
Stated, Non Owner and Purchases



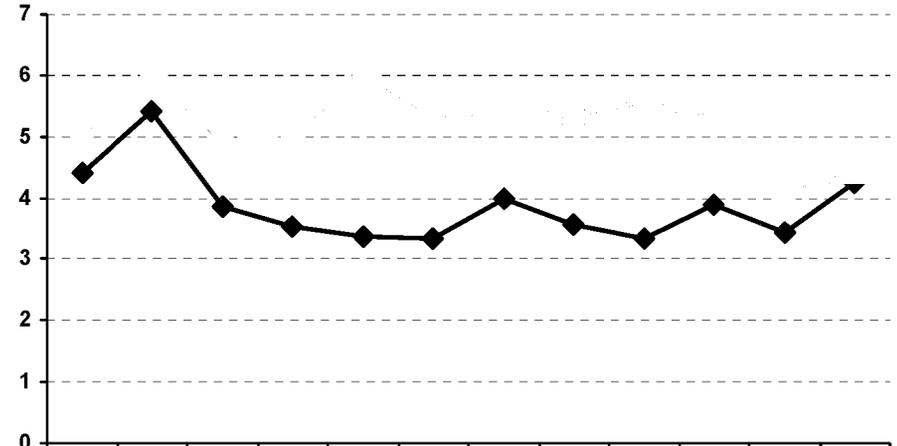
BNC Originations

Stated, low FICO loans have been showing positive trends as well

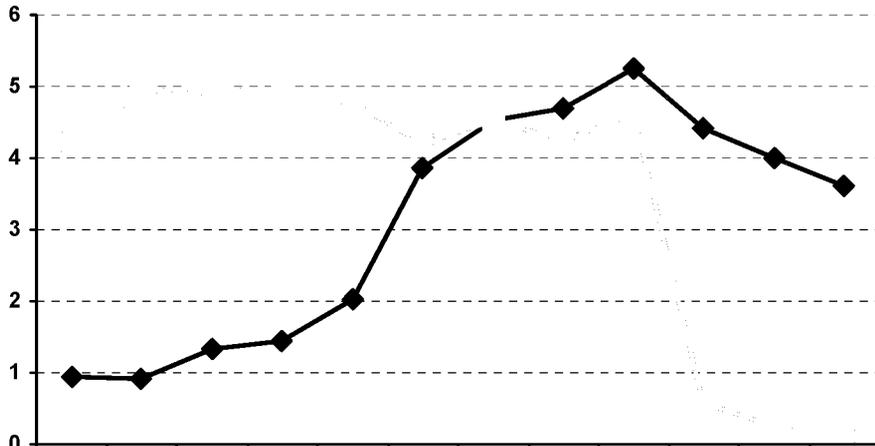
Stated, FICO <=600 and Purchases



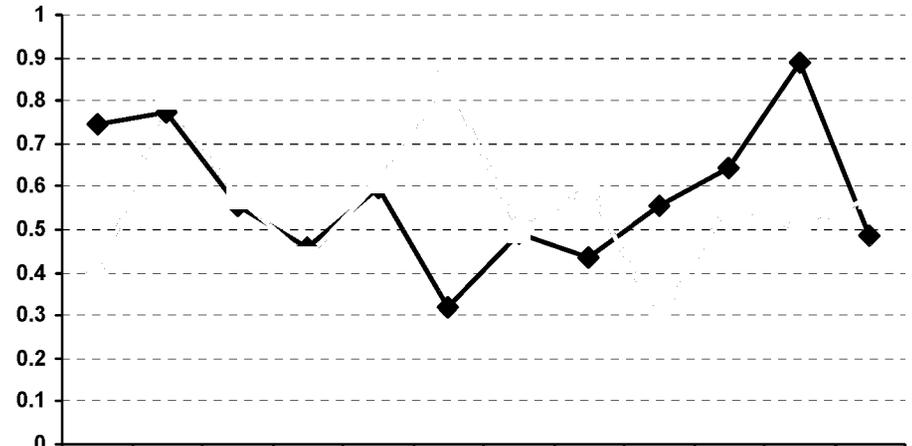
Stated, FICO <=600 and Self Employed



Stated, FICO <=600 and 80/20s



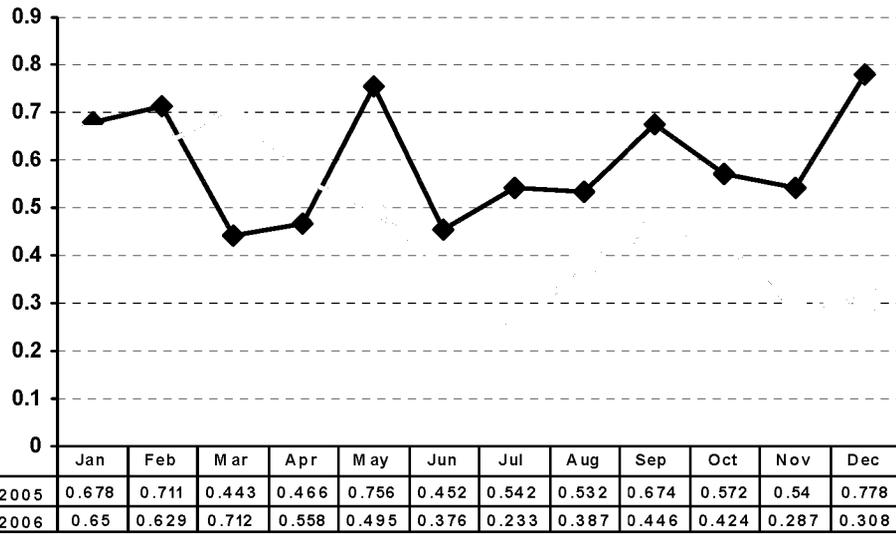
Stated, FICO <=600 and DTI > 50



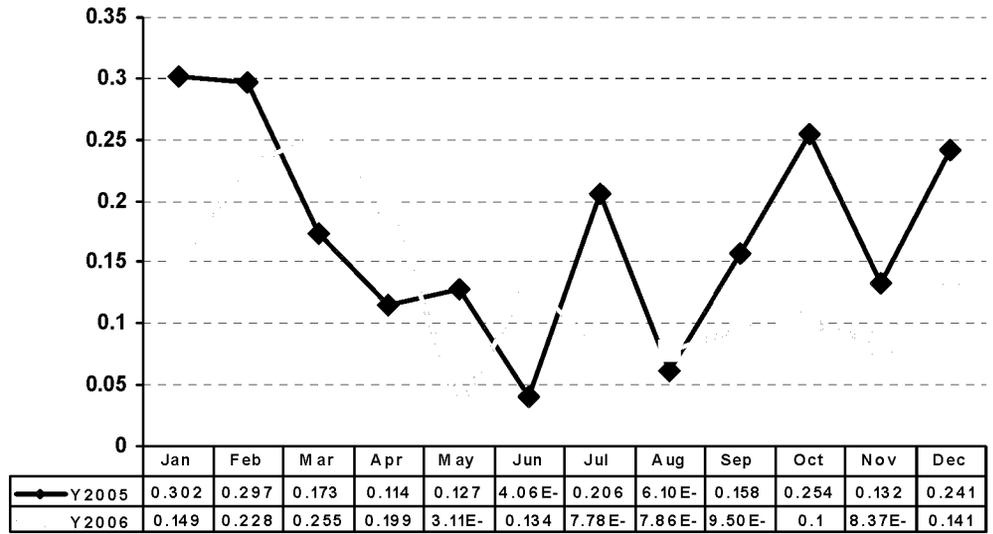
BNC Originations

Low FICO, non-owner loans have been showing positive trends as well

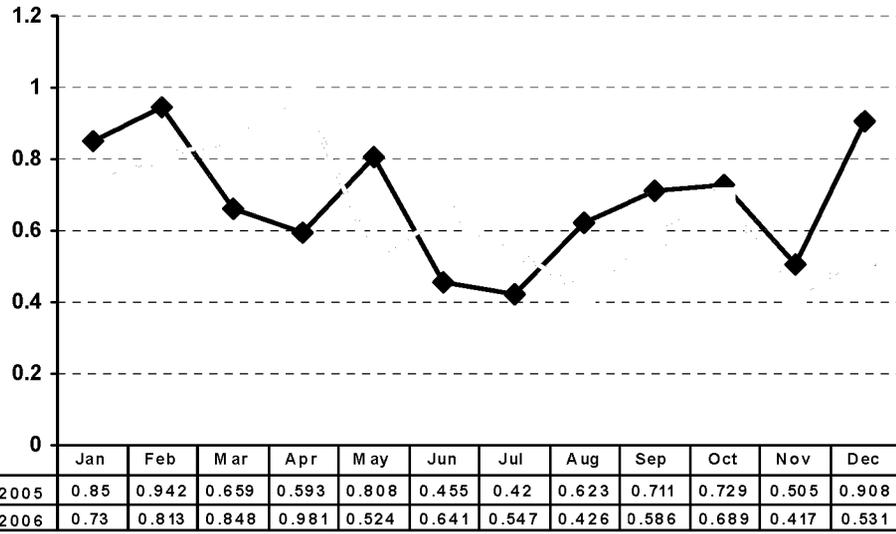
Non Owner, FICO <=600 and Purchases



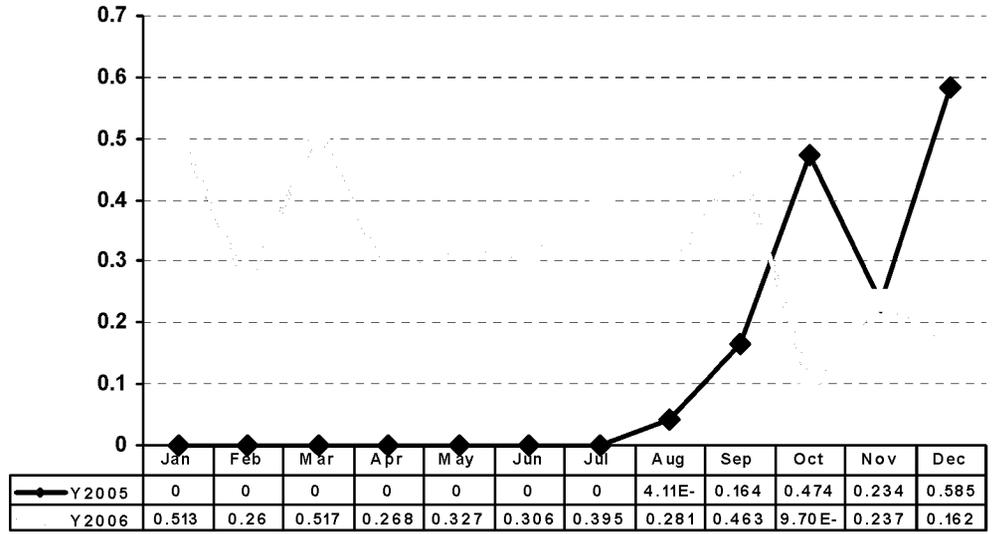
Non Owner, FICO <=600 and DTI > 50

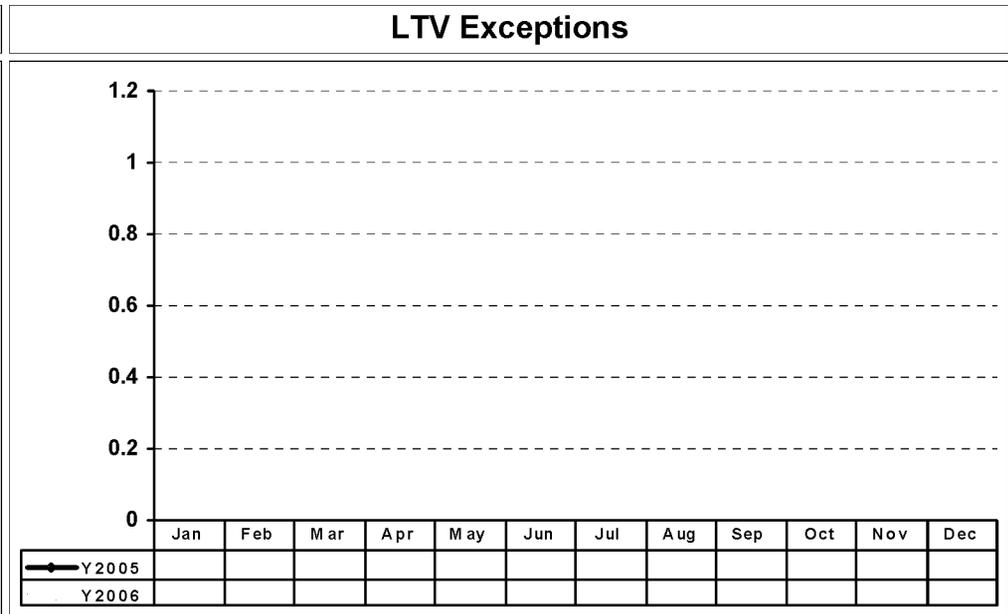
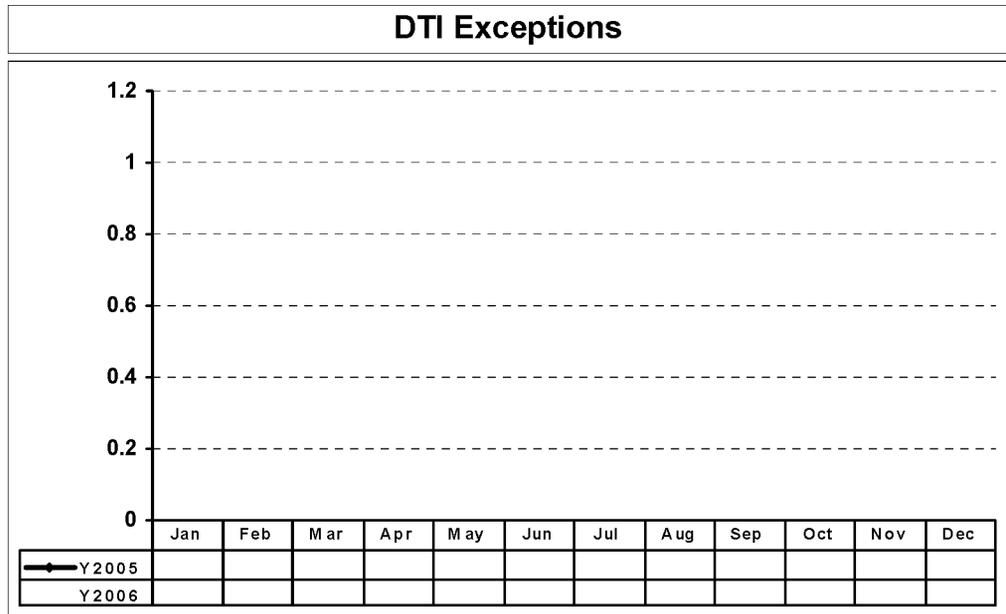
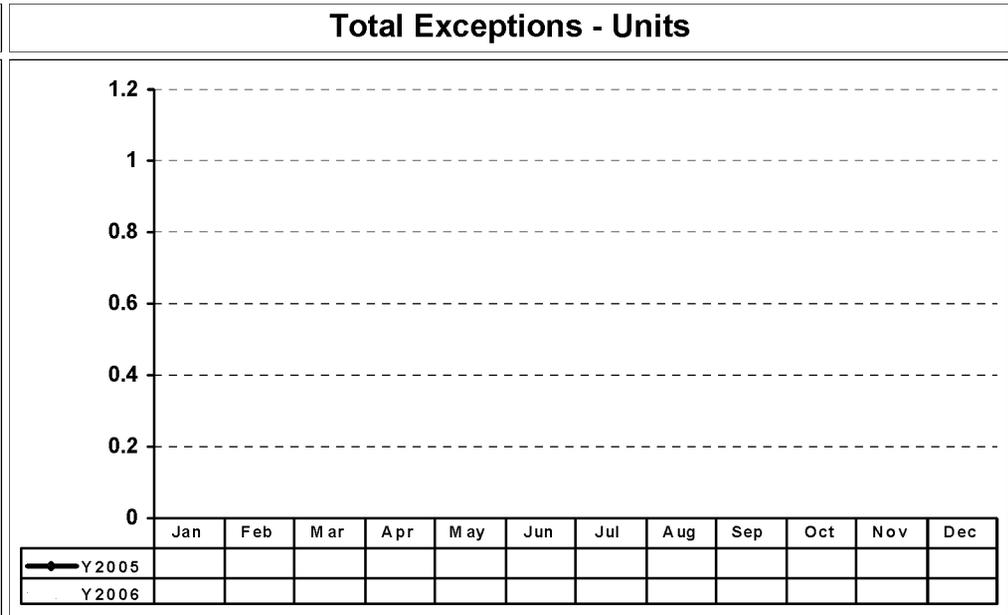
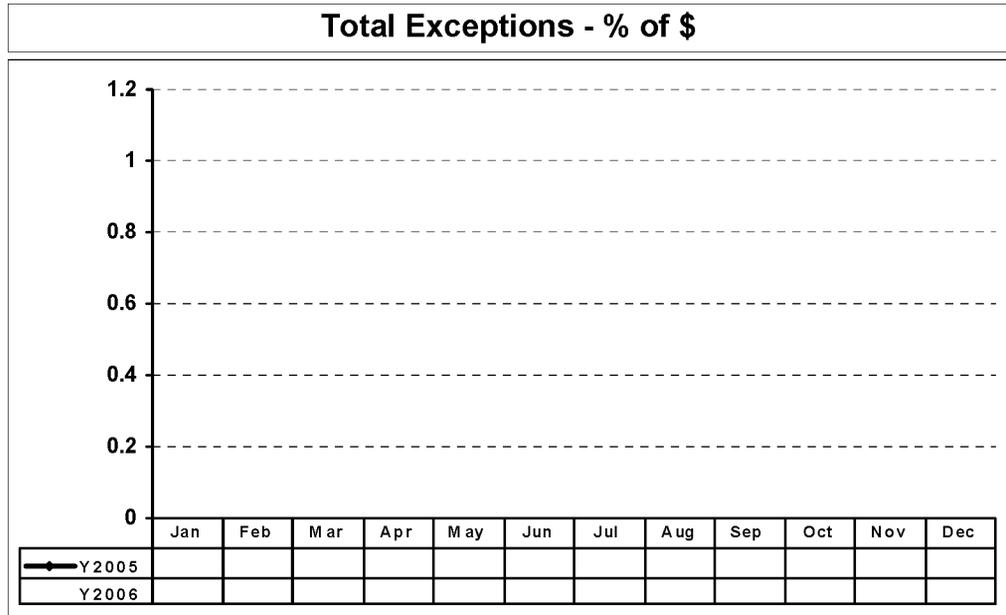


Non Owner, FICO <=600 and Self Employed

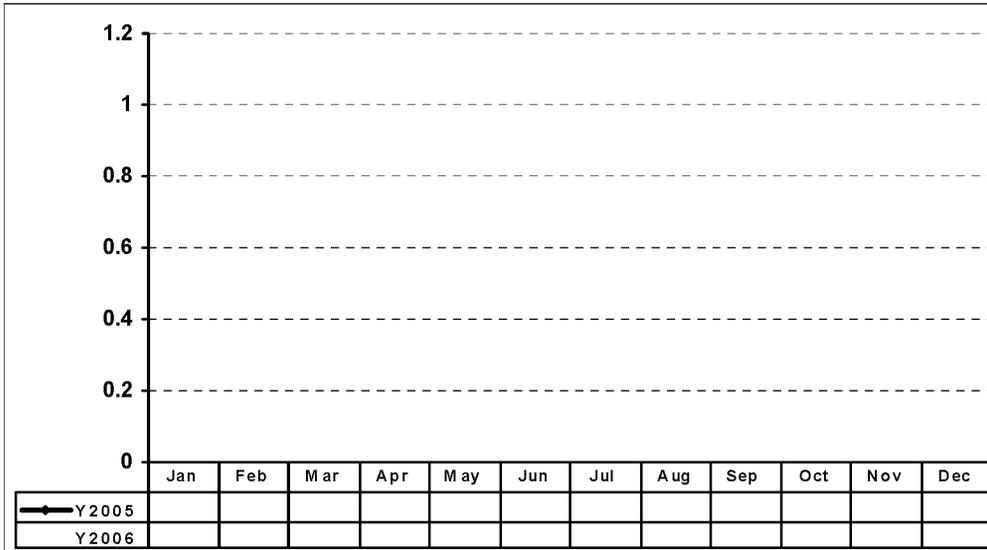


Non Owner, FICO <=600 and 80/20s

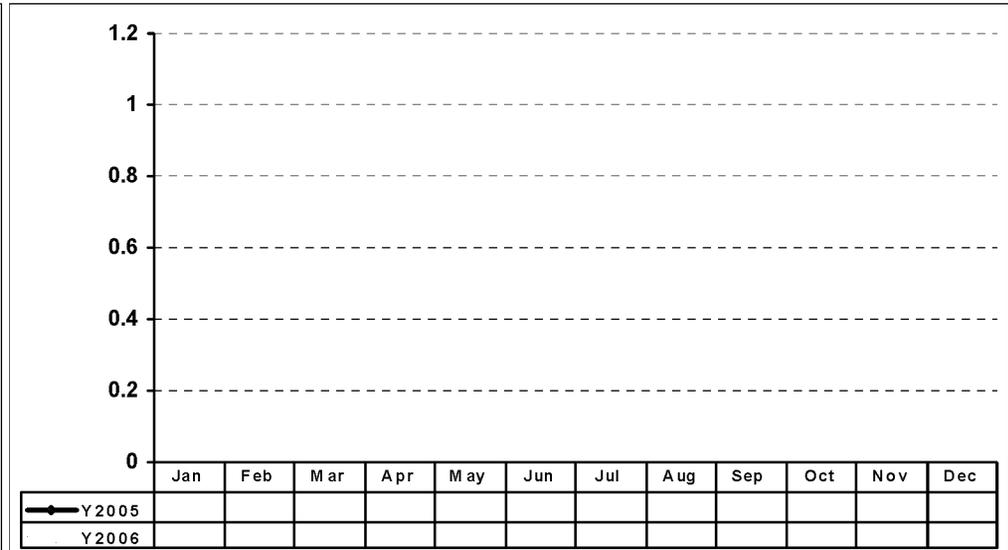




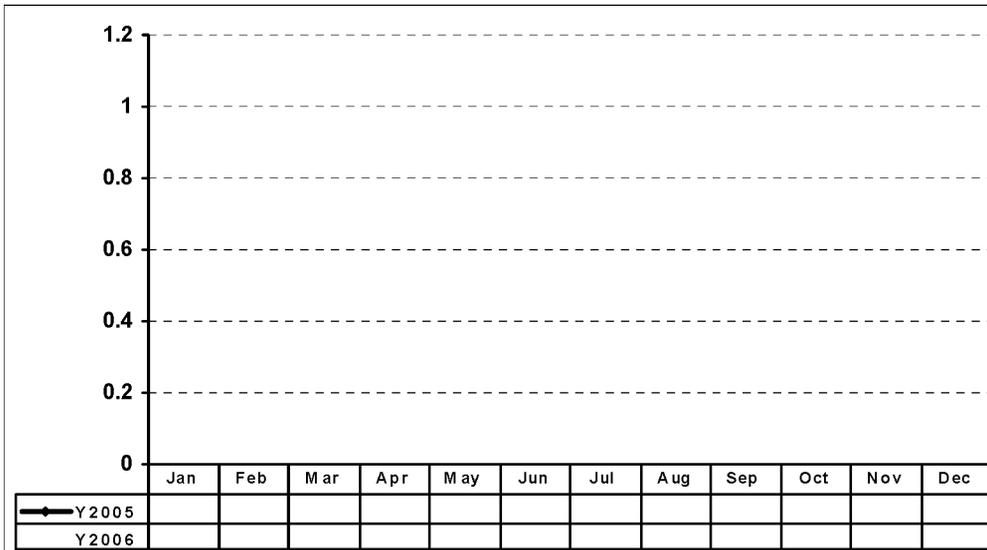
Loan Size Exceptions



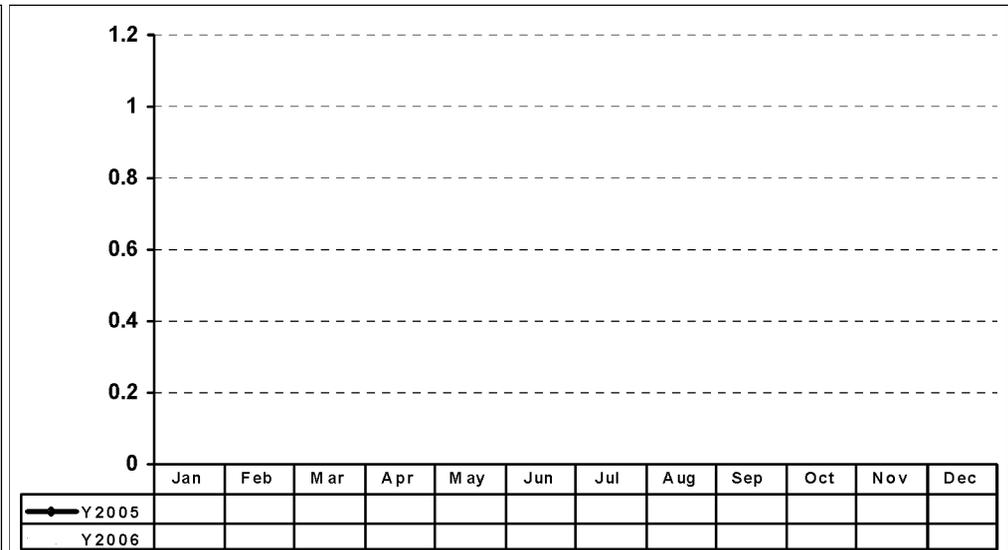
Income Exceptions



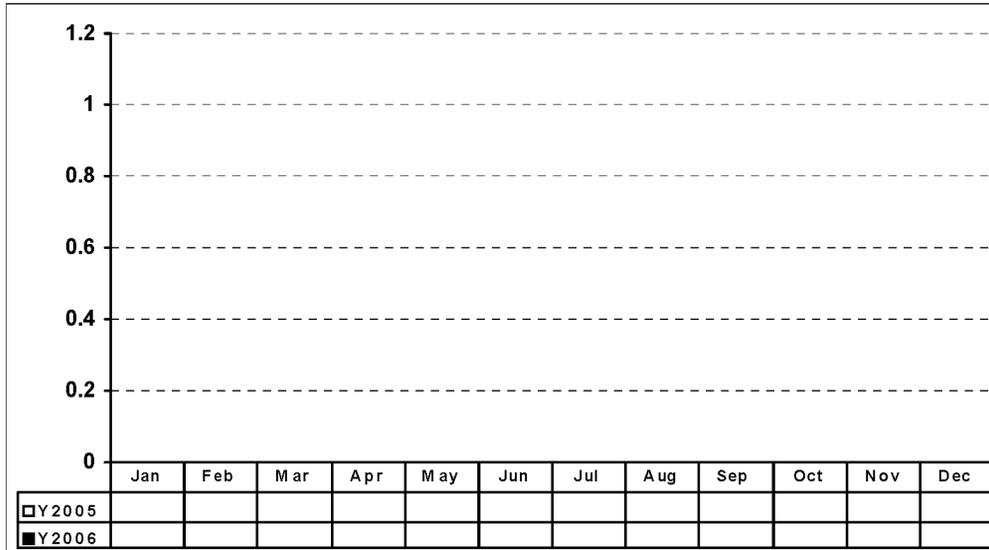
Documentation Exceptions



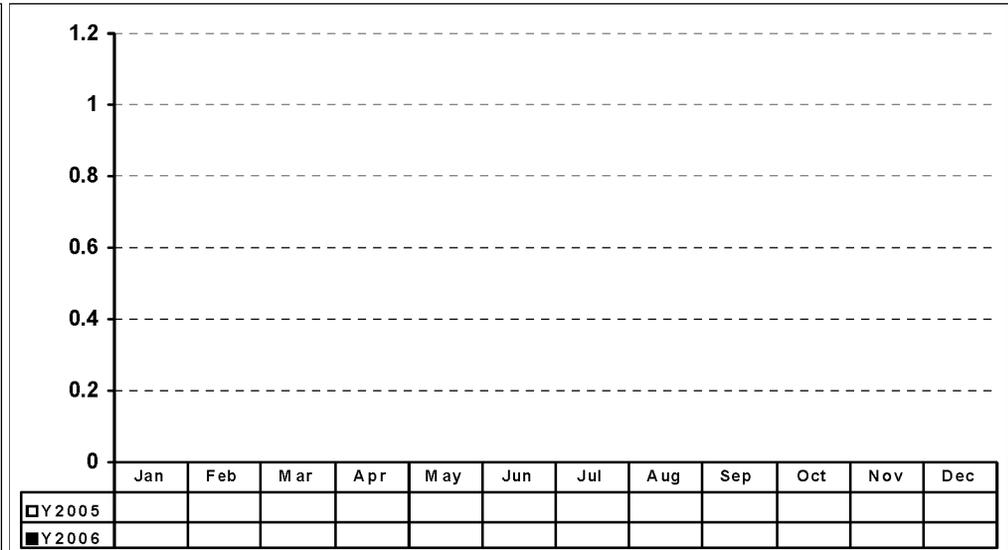
Multiple Credit Exceptions



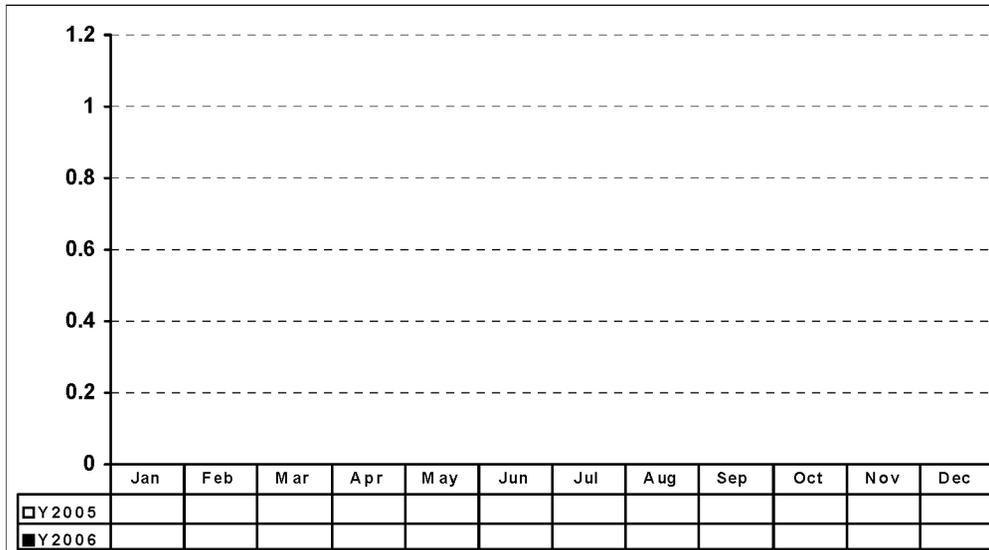
Pricing Exceptions - \$



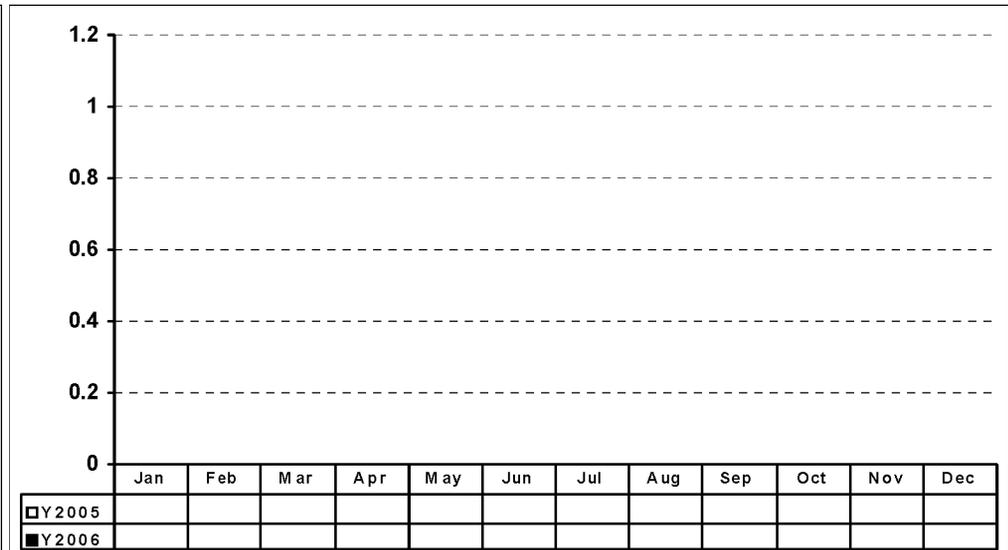
Pricing Exceptions - Units



Average Pricing Exceptions per Unit



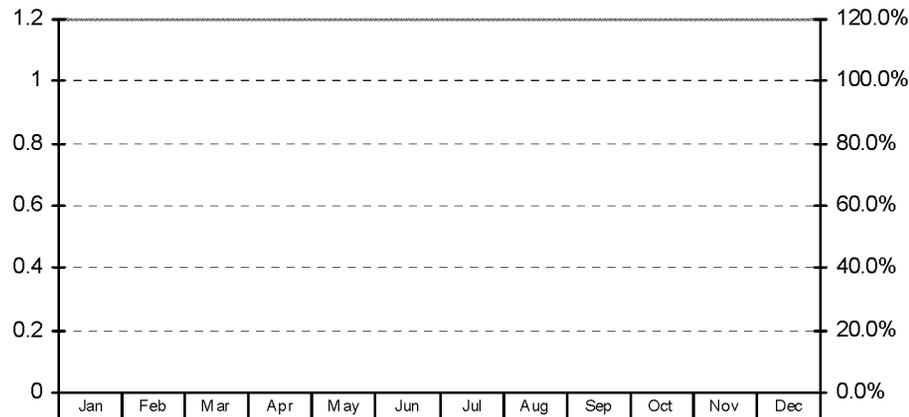
Total Pricing Exceptions per Unit



BNC Originations

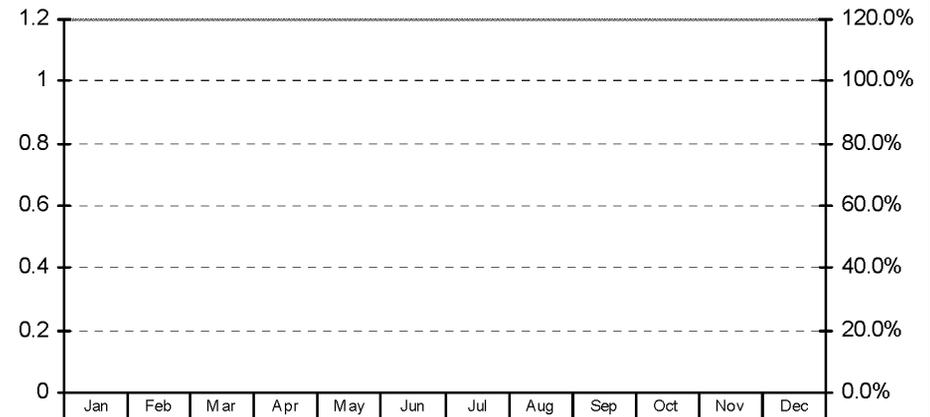
There was a spike of QC findings in December

Due Diligence - Units and % of Total



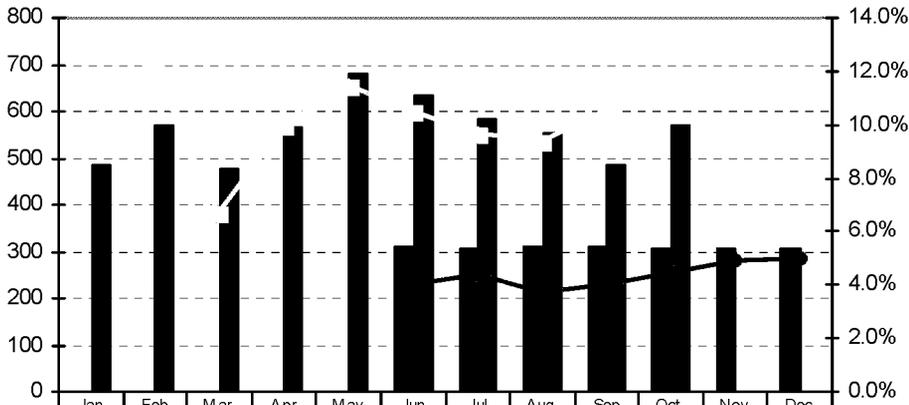
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005												
Y2006												
R2005												
R2006												

Due Diligence - Kick outs and % of Total



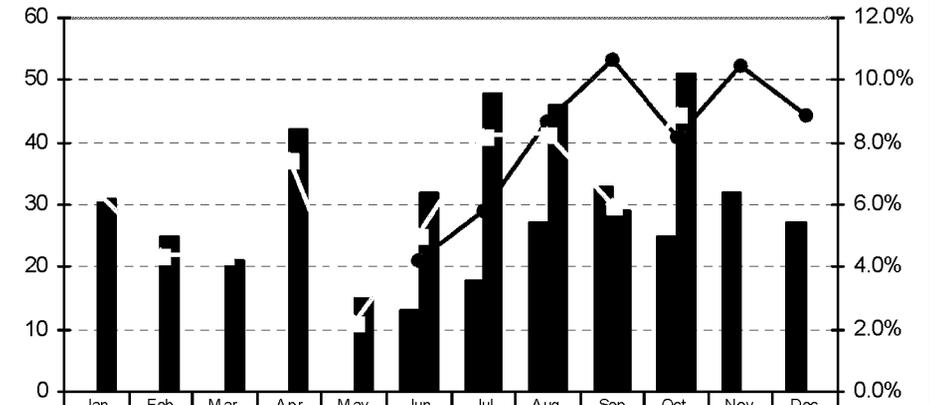
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005												
Y2006												
R2005												
R2006												

QC - Units and % of Total



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005						310	308	311	310	306	305	305
Y2006	483	570	476	564	680	633	581	555	484	570		
R2005						0.04	0.044	0.037	0.04	0.045	0.049	0.05
R2006	0.102	0.12	0.067	0.1	0.115	0.105	0.097	0.094	0.106	0.119		

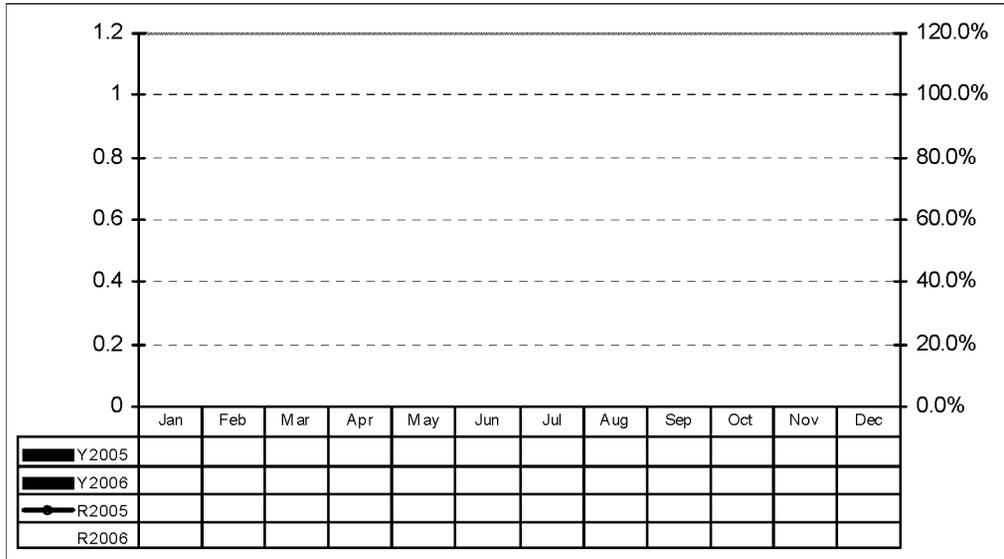
QC - R3s Units and %



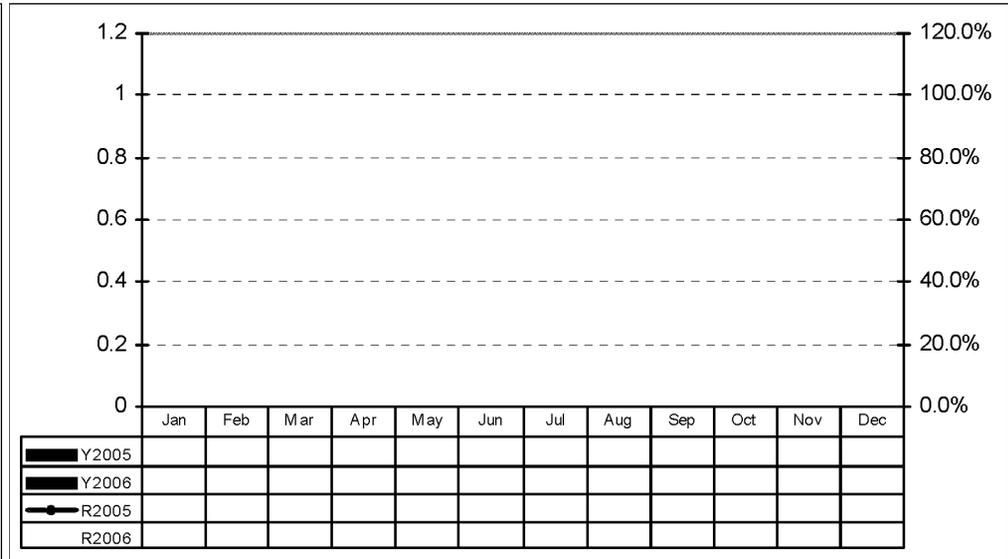
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005						13	18	27	33	25	32	27
Y2006	31	25	21	42	15	32	48	46	29	51		
R2005						0.042	0.0584	0.0868	0.1064	0.0817	0.1049	0.0885
R2006	0.0642	0.0438	0.0441	0.0745	0.0221	0.0506	0.0826	0.0829	0.0599	0.0895		

BNC Originations

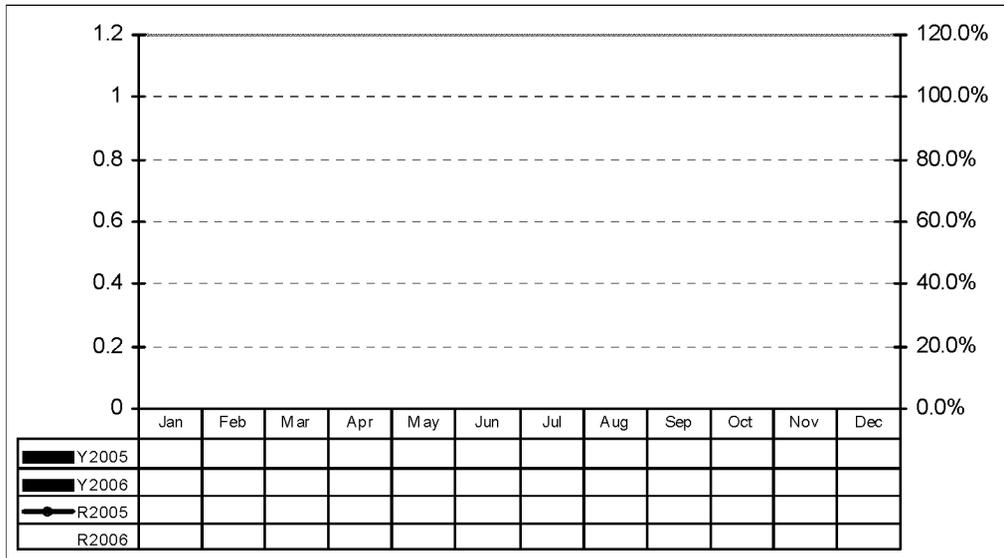
QC - Doc Score and % of R3s



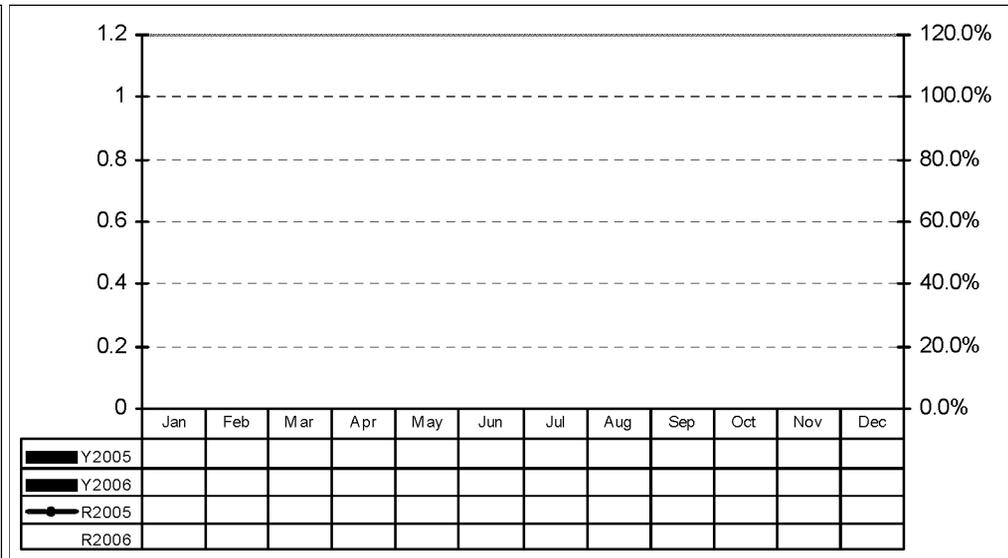
QC - Income Score and % of R3s



QC - Credit Score and % of R3s



QC - Calc Score and % of R3s



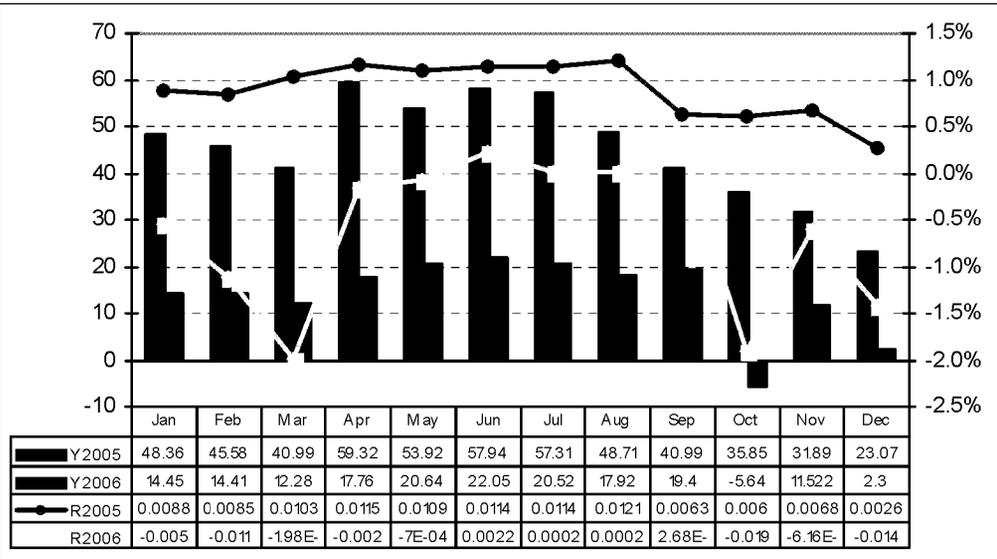
BNC Profitability

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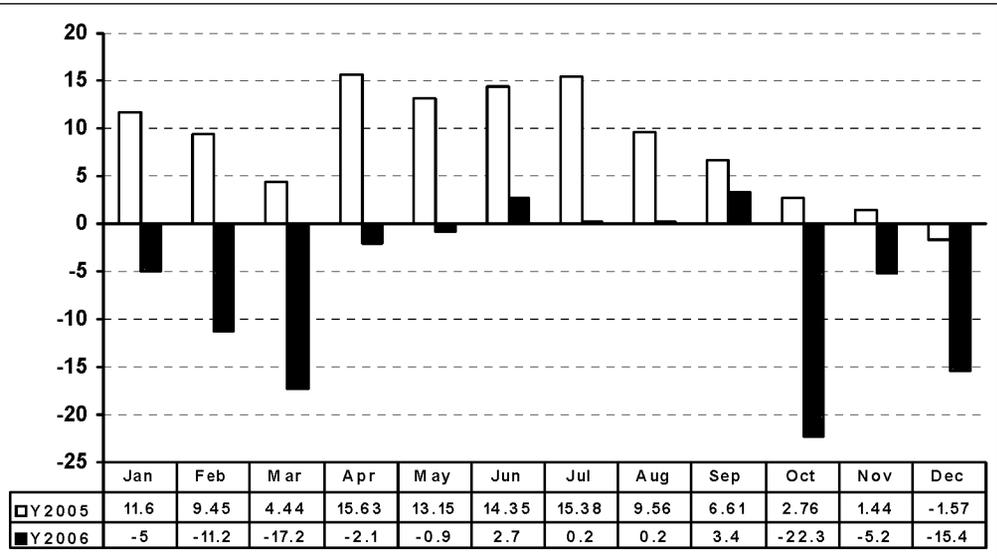
BNC Profitability

Net Income for BNC was **-\$15.4 million** with negative net revenues

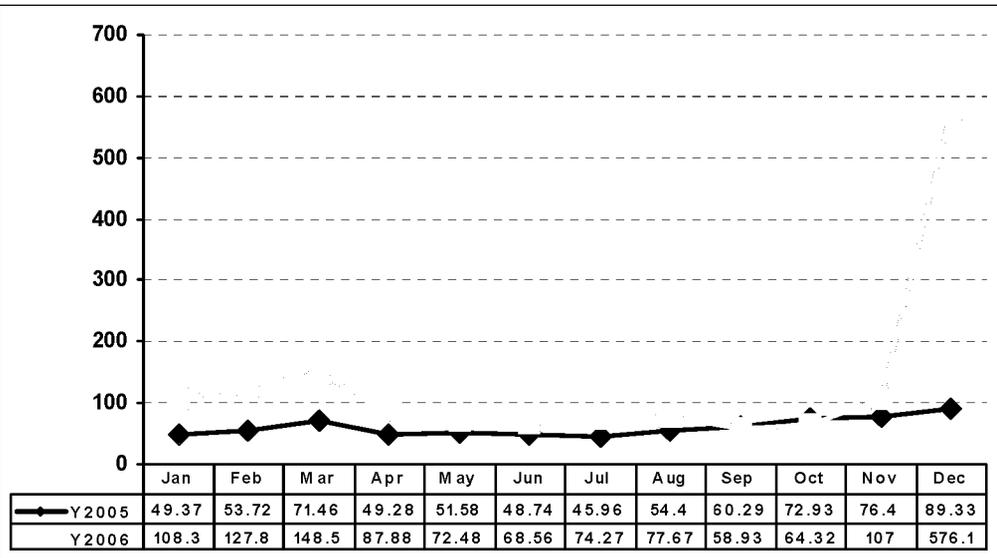
BNC Net Revenues and Pretax Profit (bps)



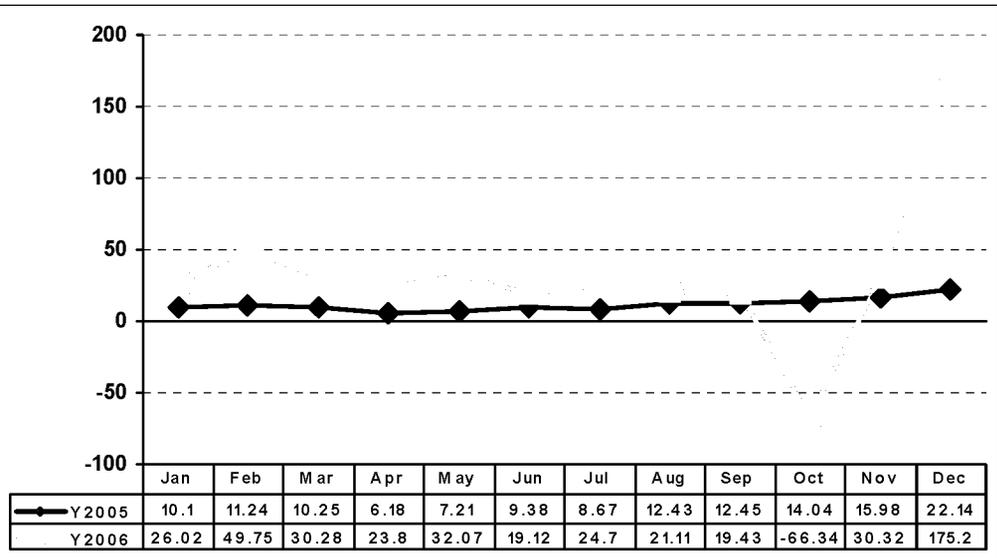
BNC Net Income (pre-tax)



BNC Comp to Revenue



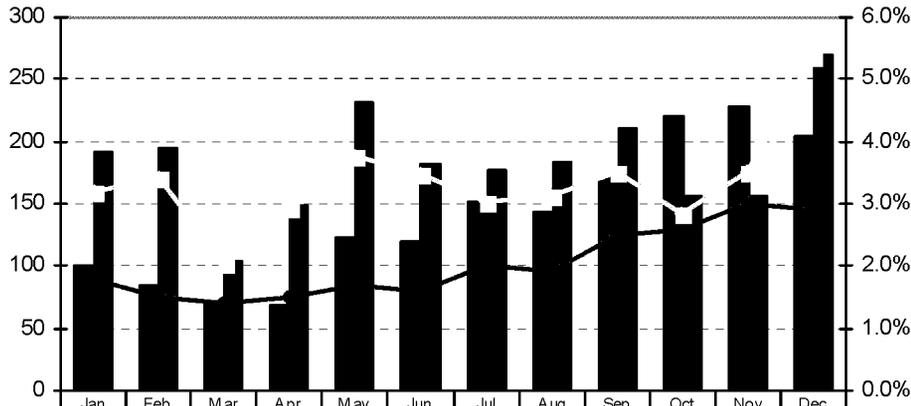
BNC NPE to Revenue



BNC Performance

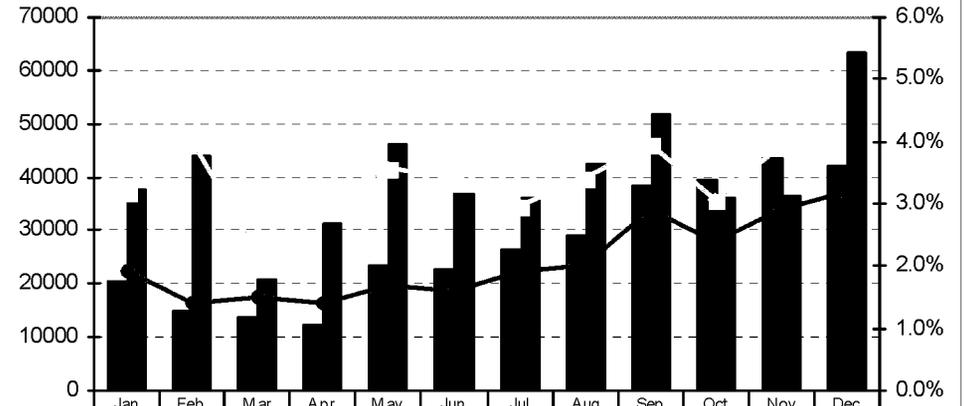
There was a huge spike in FPDs, primarily due to servicing issues. The adjusted numbers are close to last month

First Payment Defaults (30 at 30) - Units



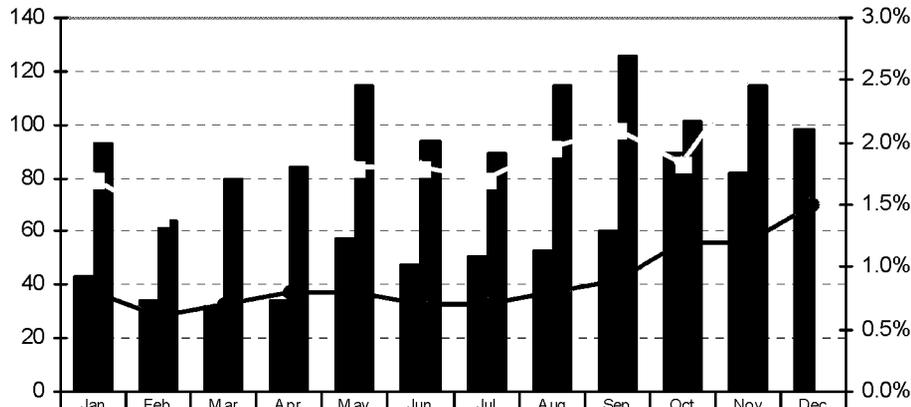
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	101	85	70	69	123	119	151	144	170	221	228	204
Y2006	192	194	104	149	231	182	177	184	210	156	156	269
R2005	0.016	0.015	0.014	0.015	0.017	0.016	0.02	0.019	0.025	0.026	0.03	0.029
R2006	0.032	0.034	0.0205	0.0295	0.0377	0.0348	0.0303	0.0314	0.0352	0.0283	0.0352	0.0537

First Payment Defaults (30 at 30) - \$



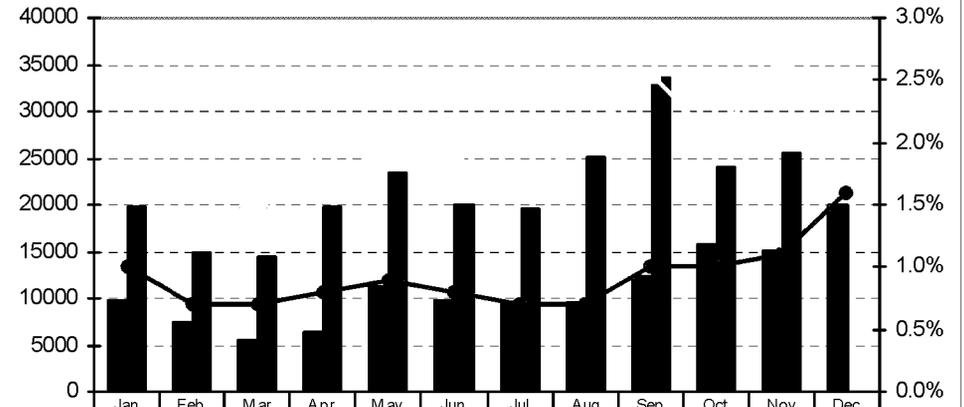
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	20495	15049	13803	12302	23374	22551	26410	28876	38206	39309	43525	42174
Y2006	37632	44100	20777	31234	46191	36704	36185	42337	51727	36226	36637	63271
R2005	0.019	0.014	0.015	0.014	0.017	0.016	0.019	0.02	0.029	0.024	0.029	0.032
R2006	0.032	0.04	0.022	0.0299	0.0358	0.034	0.0296	0.034	0.0395	0.0306	0.0393	0.0563

First Payment Defaults (60 at 60) - Units



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	43	34	32	34	57	48	51	53	60	89	82	98
Y2006	93	64	80	84	115	94	89	115	126	101	115	
R2005	0.008	0.006	0.007	0.008	0.008	0.007	0.007	0.008	0.009	0.012	0.012	0.015
R2006	0.017	0.014	0.018	0.0195	0.018	0.018	0.017	0.0196	0.0211	0.0183	0.0256	

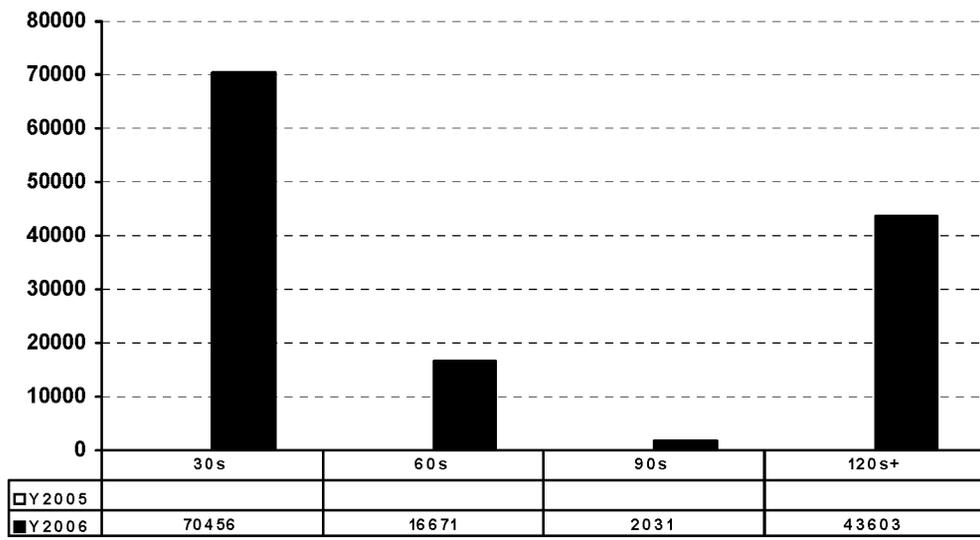
First Payment Defaults (60 at 60) - \$



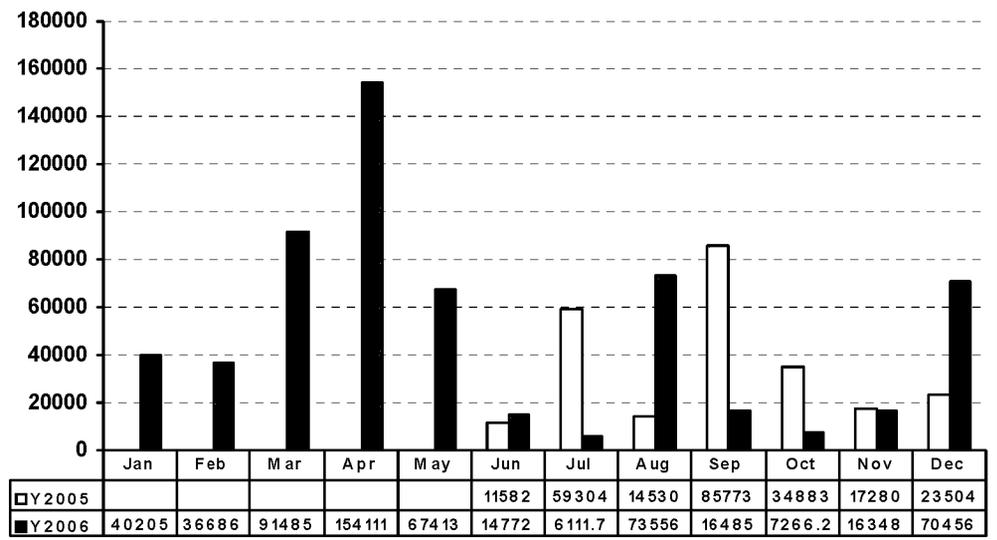
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Y2005	9709.3	7438.7	5444.4	6438	11330	9835.3	9563.3	9510.9	12329	15686	15097	19954
Y2006	19866	14840	14369	19857	23415	19946	19577	25172	33547	24006	25483	
R2005	0.01	0.007	0.007	0.008	0.009	0.008	0.007	0.007	0.01	0.01	0.011	0.016
R2006	0.018	0.013	0.0153	0.0196	0.0185	0.0186	0.0162	0.0202	0.0256	0.0203	0.027	

BNC Originations - Aged Inventory

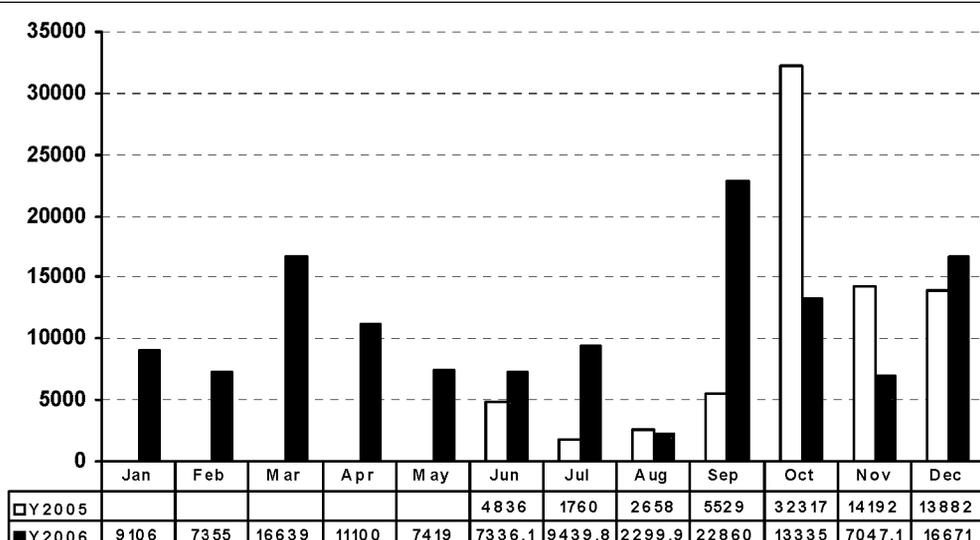
Aged Inventory - BNC Current Snapshot



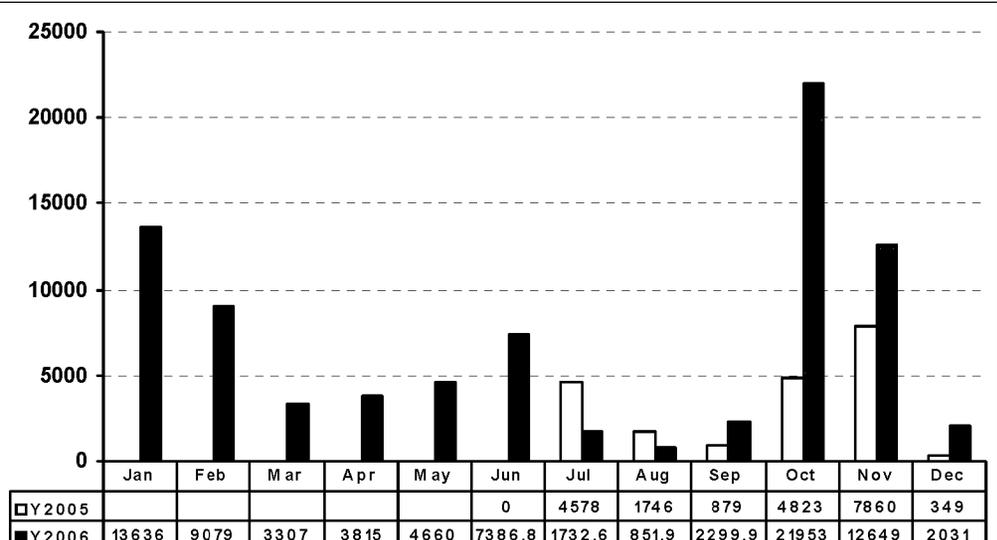
Aged Inventory - BNC 30s



Aged Inventory - BNC 60s



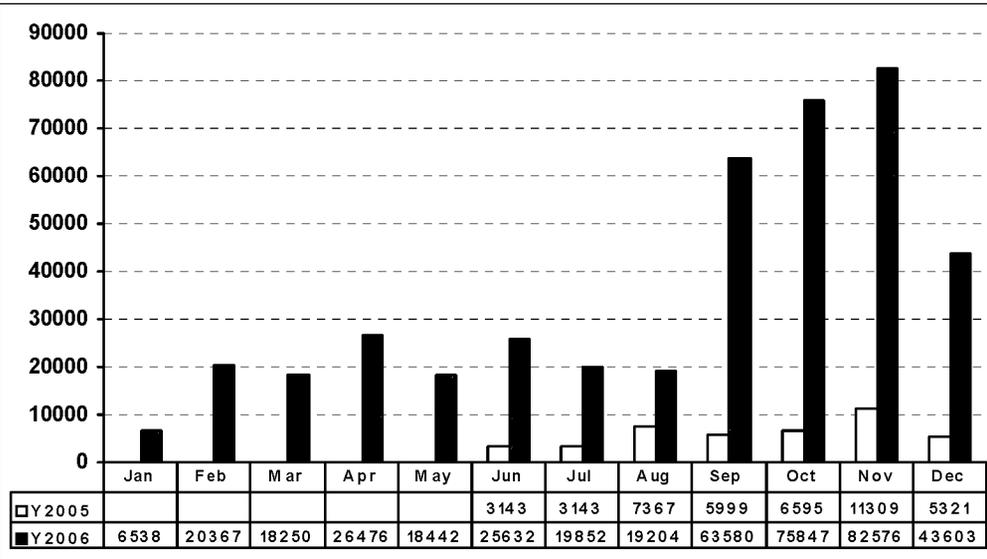
Aged Inventory - BNC 90s



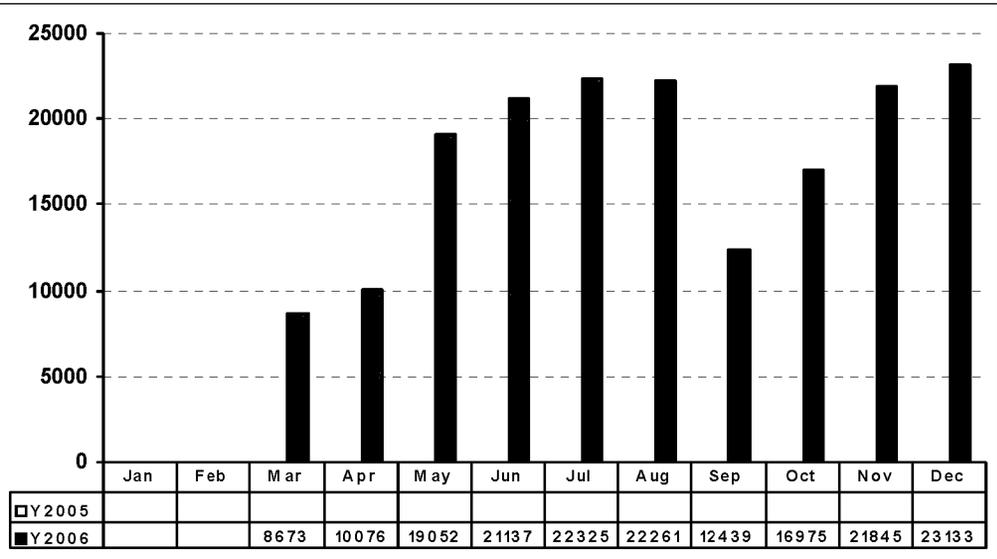
BNC and FA Claims

Claims were higher for Finance America compared to October and November

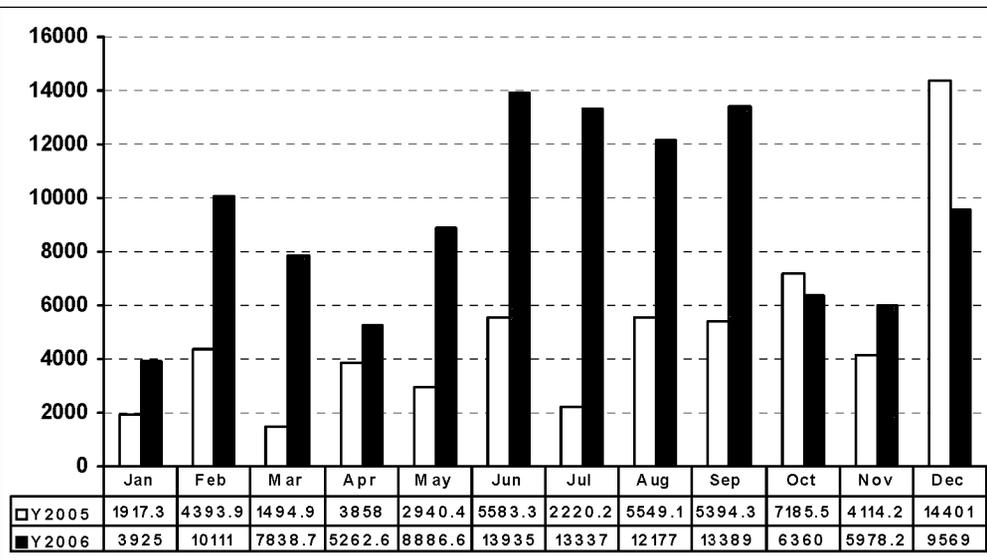
Aged Inventory - BNC 120s+



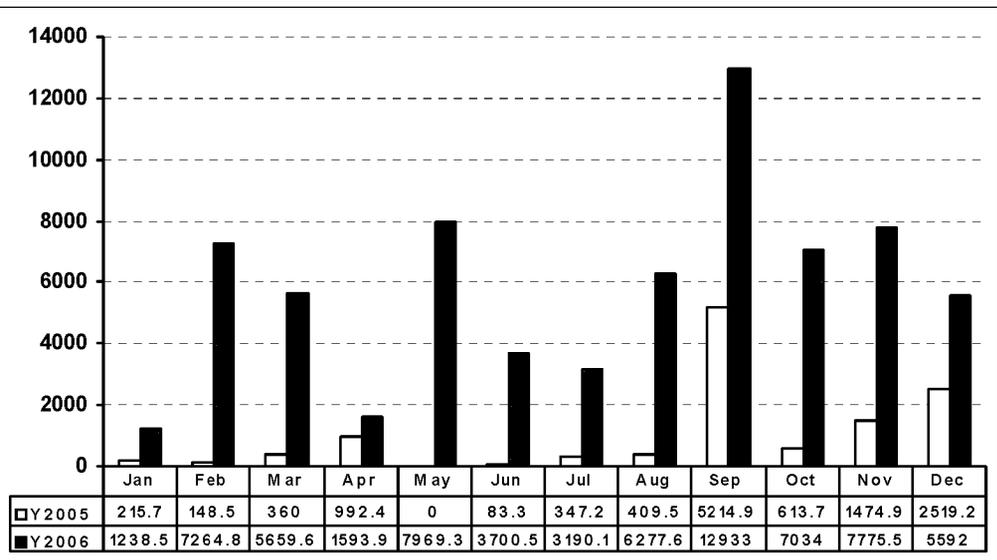
Aged Inventory - FA Repurchased Loans



Finance America Claims



BNC Claims

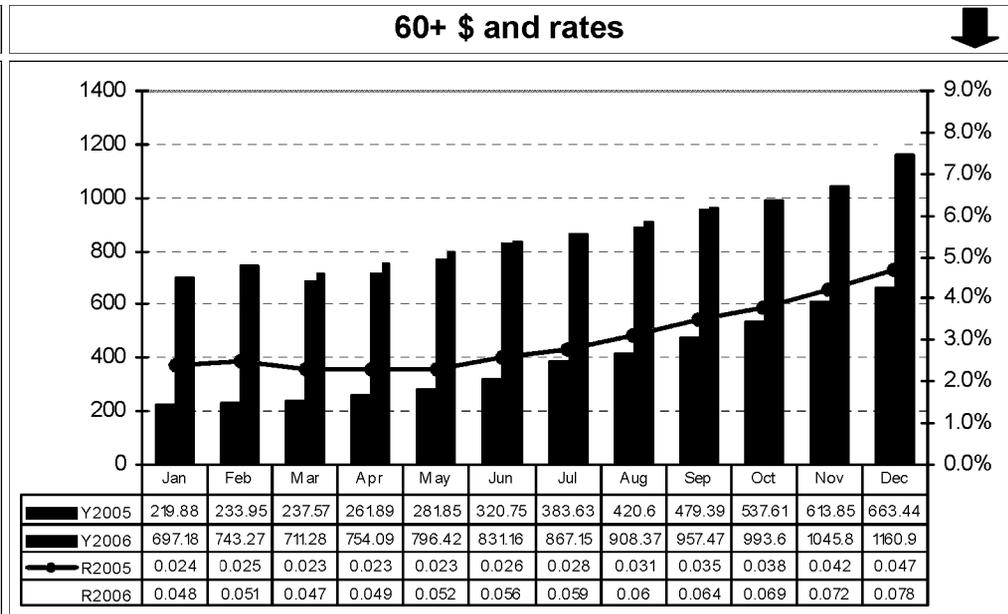
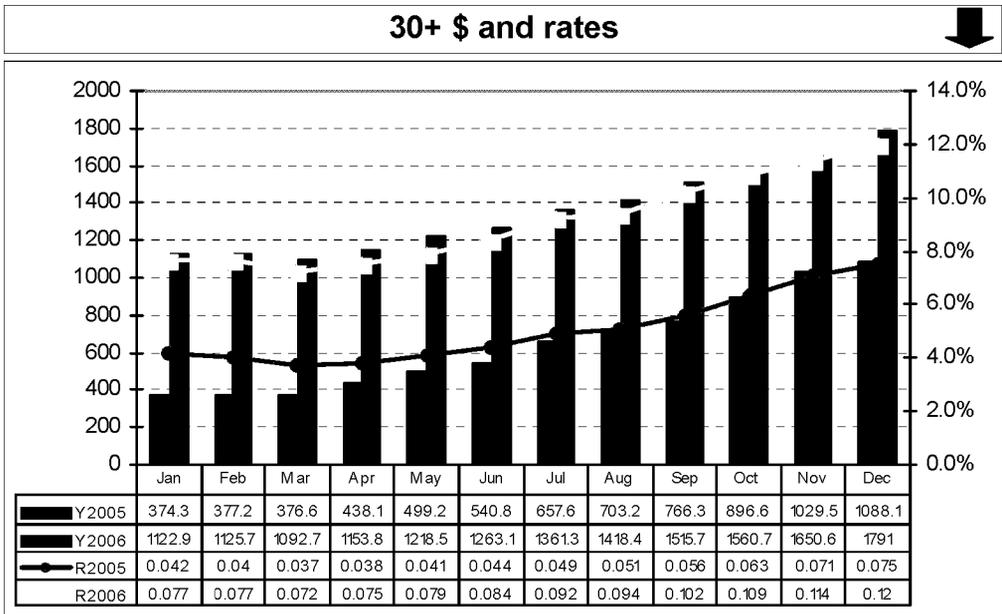
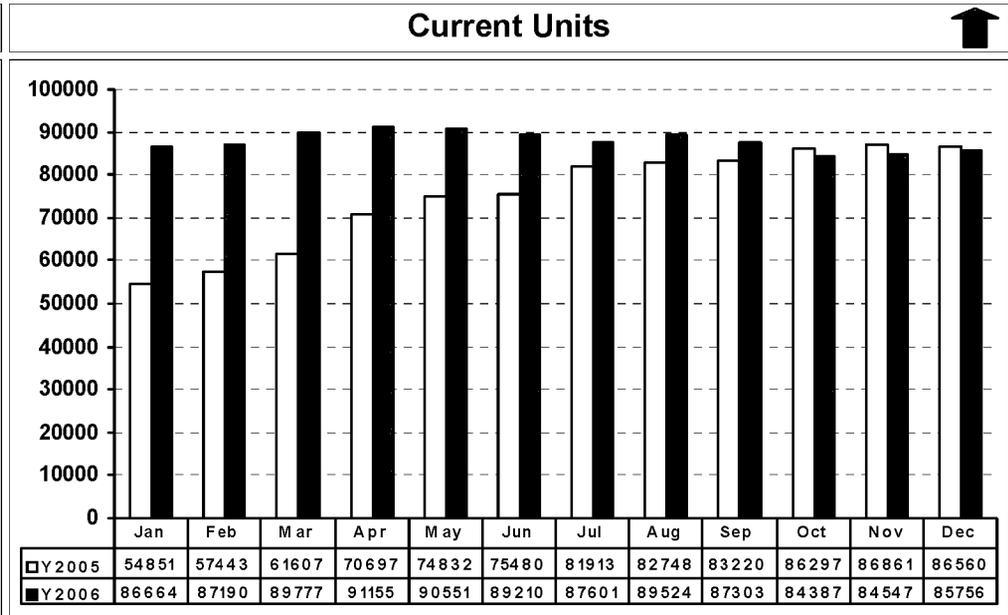
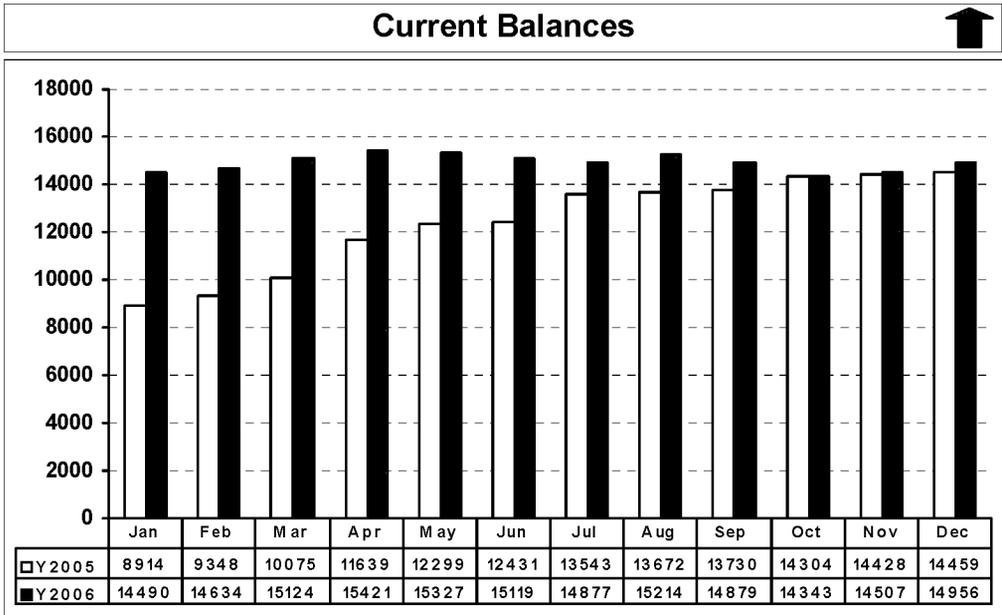


Subprime Performance

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BNC Performance

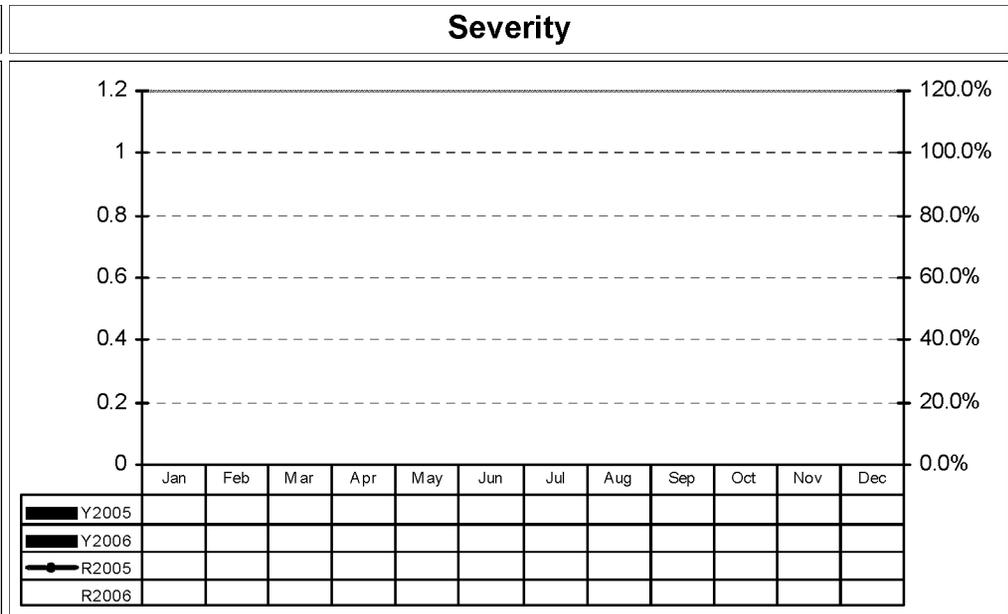
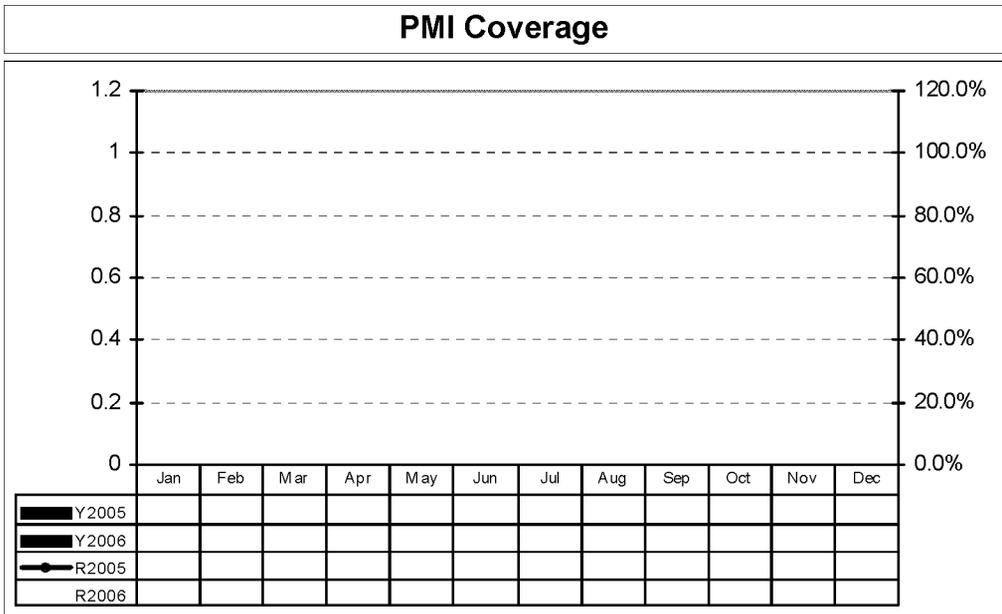
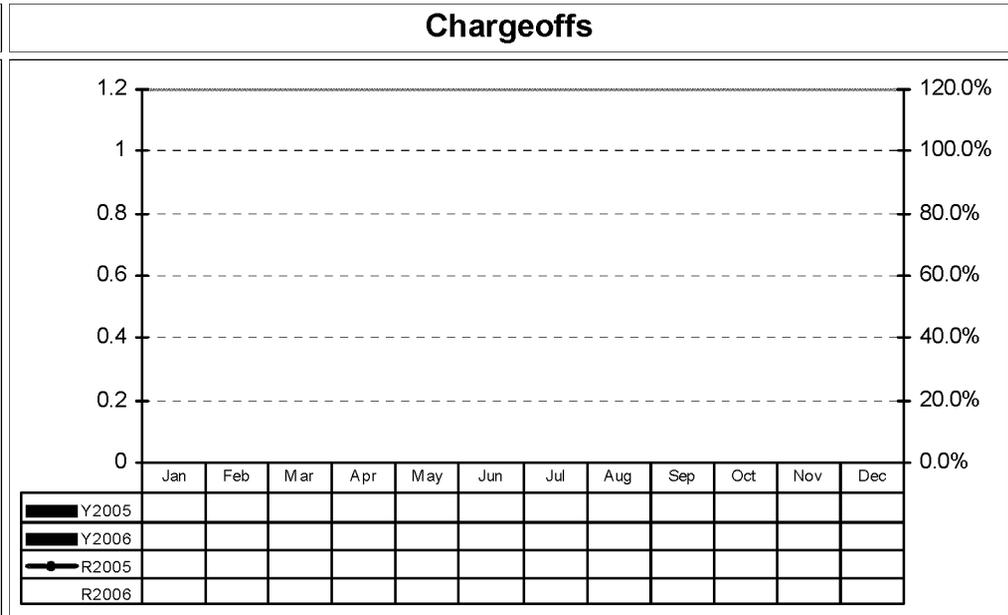
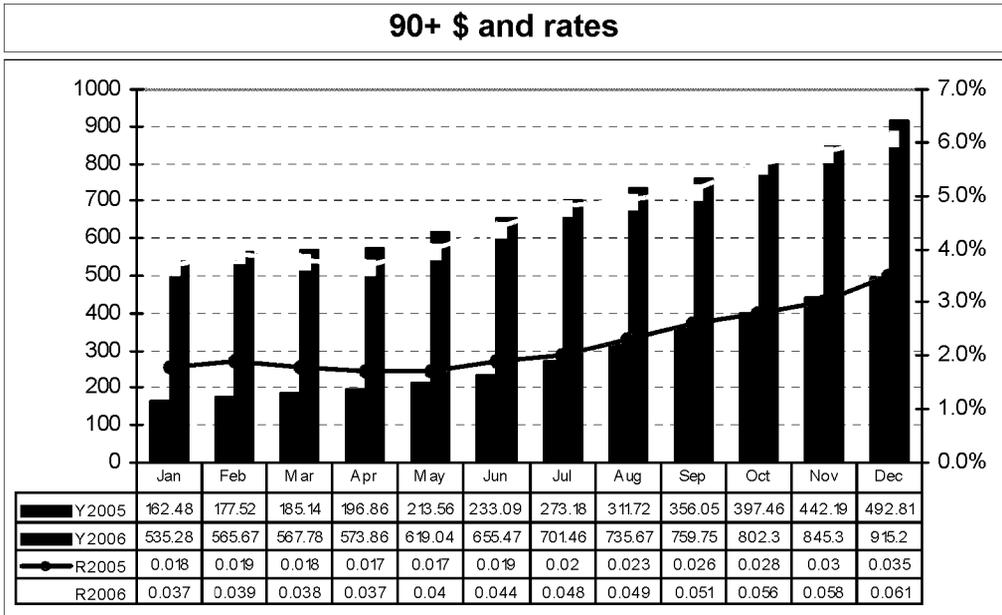
30+ rate continues to increase



* Lehman loans serviced by Chase Home Finance

BNC Performance

90+ rate continues to increase as well

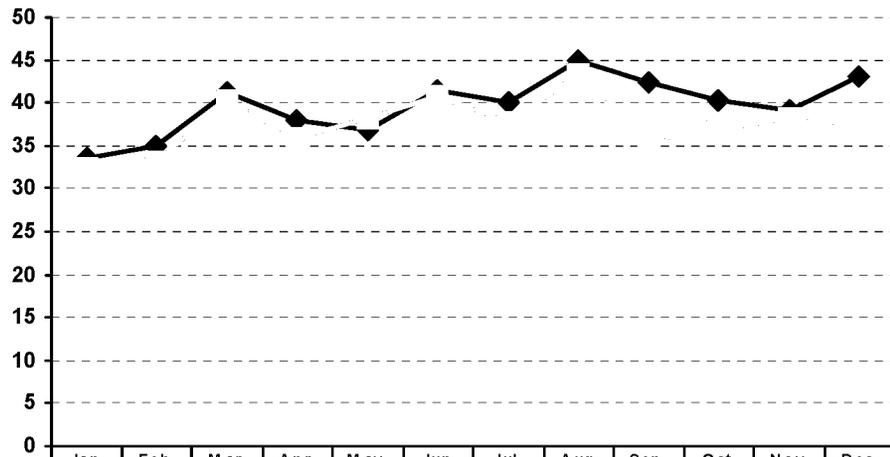


* Lehman loans serviced by Chase Home Finance

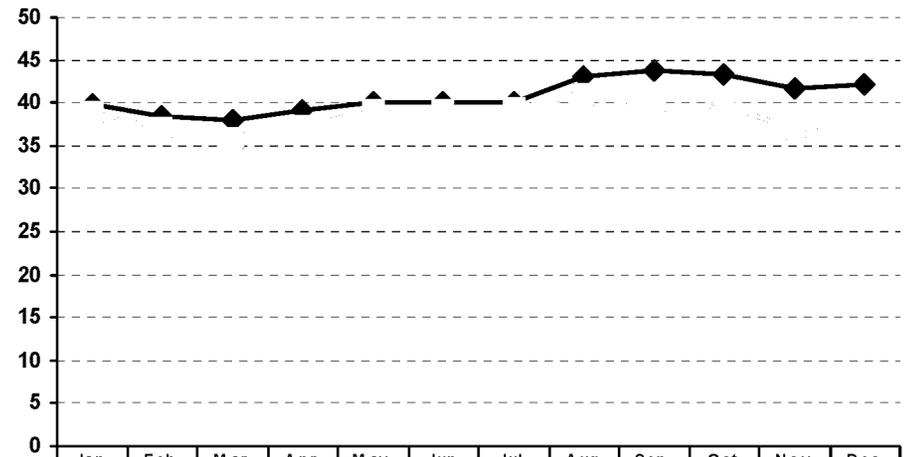
BNC Performance

CPRs have started slowly declining from last year

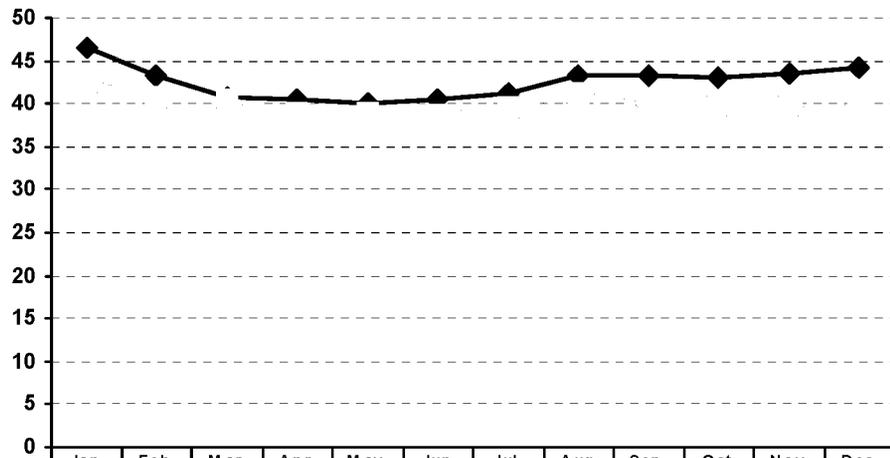
CPR1



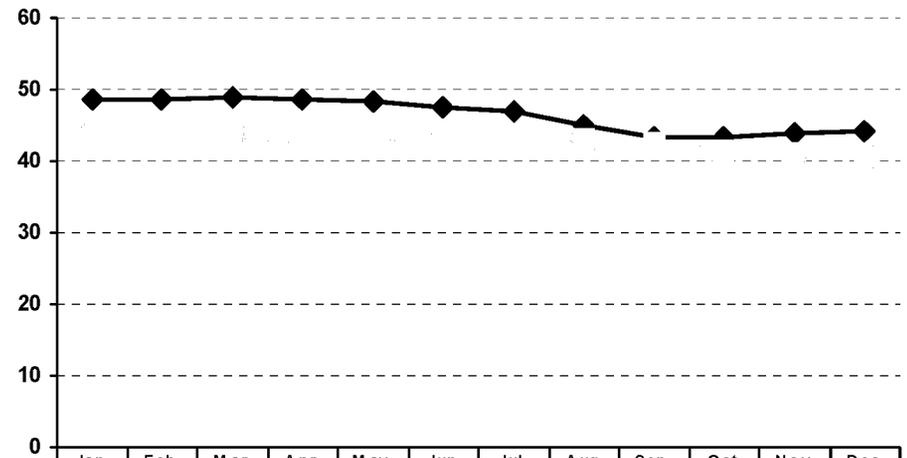
CPR3



CPR6

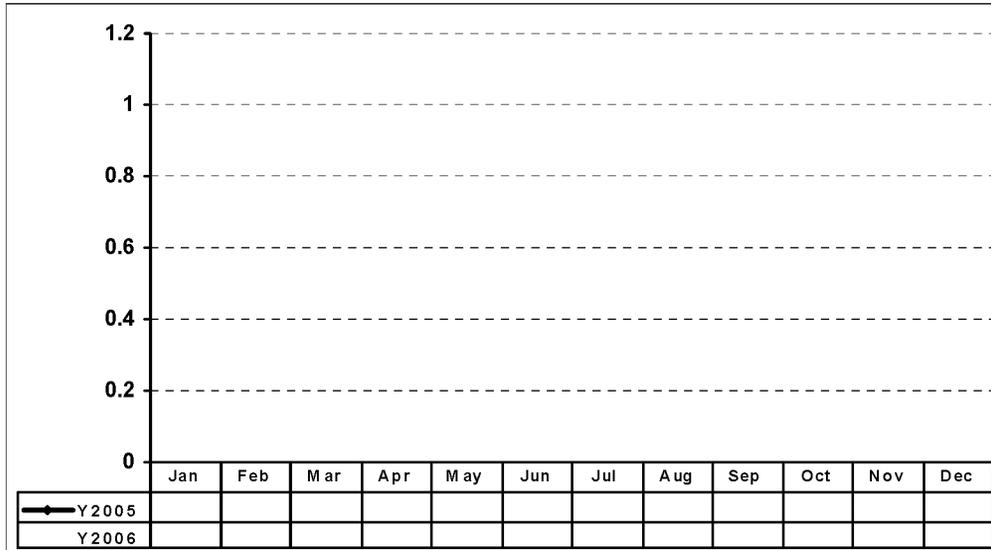


CPR12

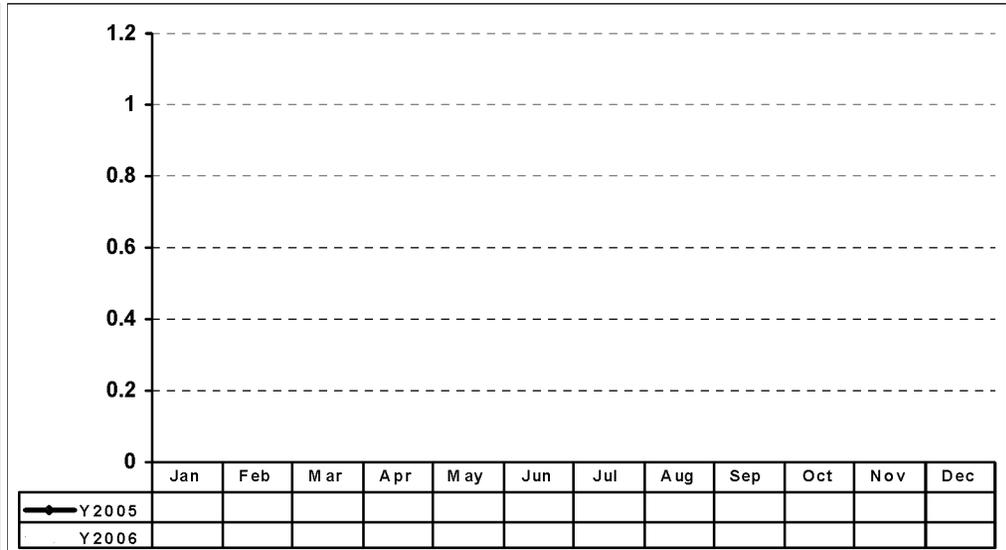


* Lehman loans serviced by Chase Home Finance

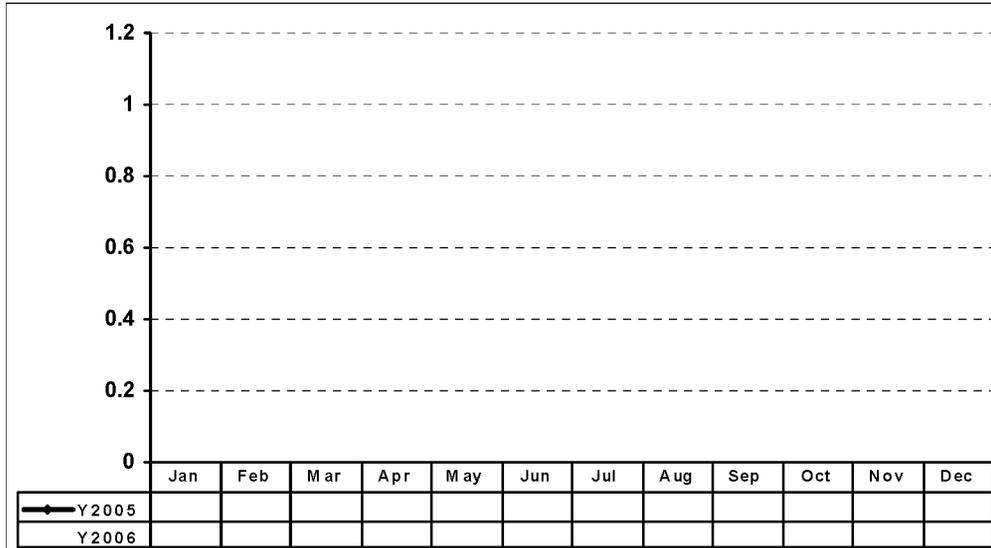
Current FICO



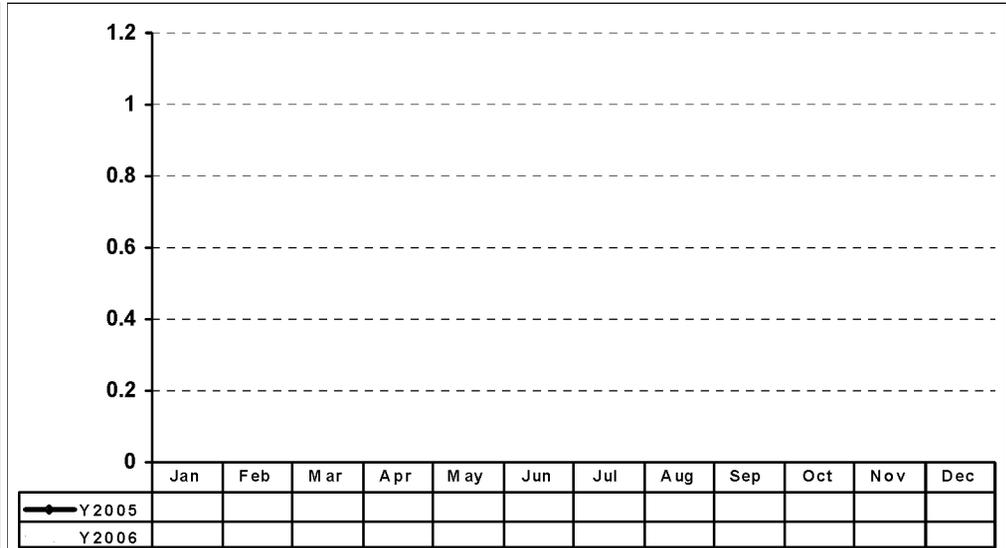
Current CLTV



Current % DTI

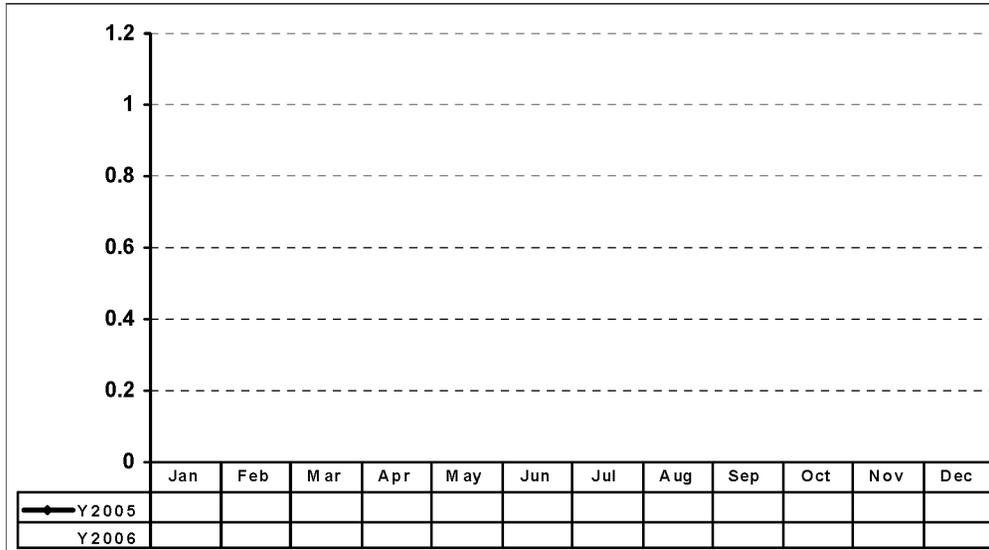


Current % Non Owner Occupied

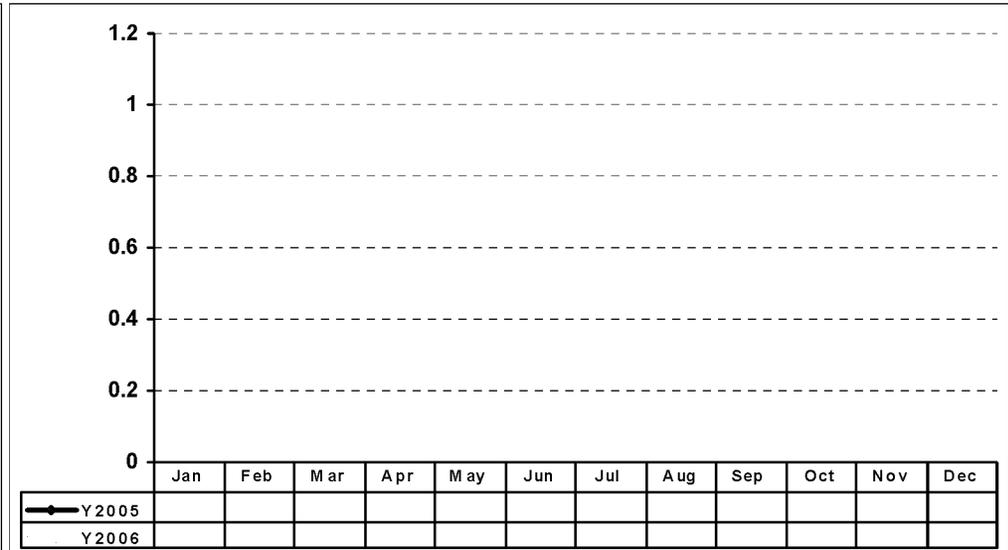


* Lehman loans serviced by Chase Home Finance

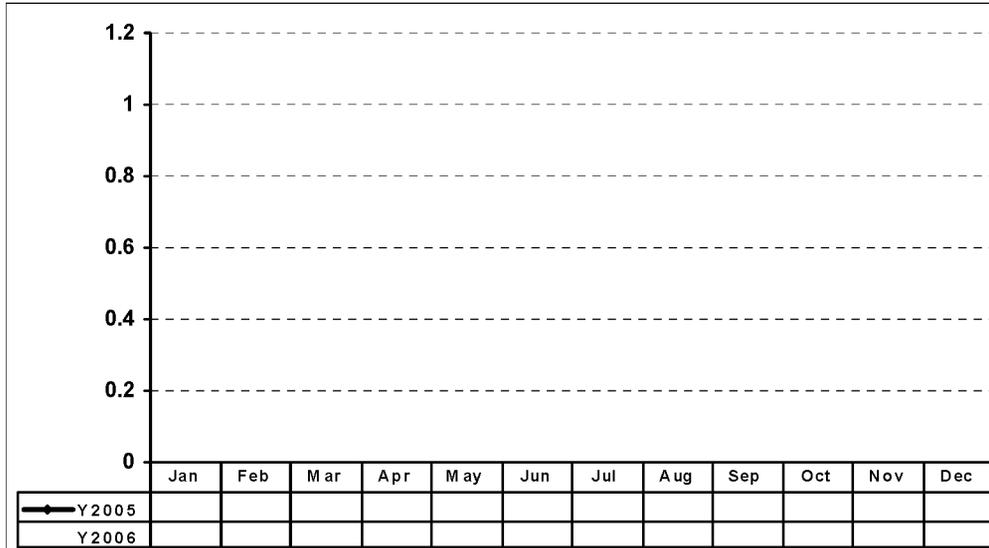
Current % 2nd Liens



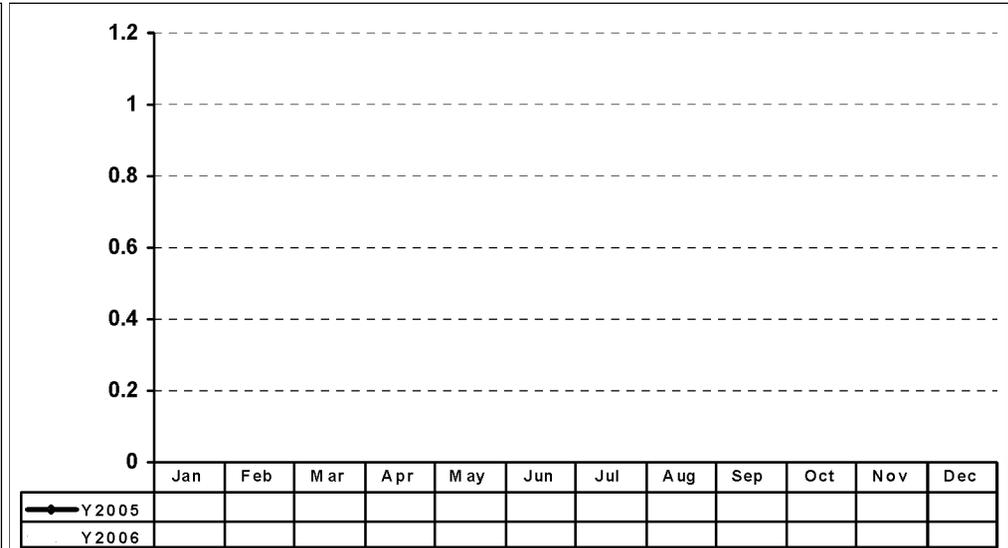
Current % IO



Current % with Prepayment Penalty



Current % 80-20s

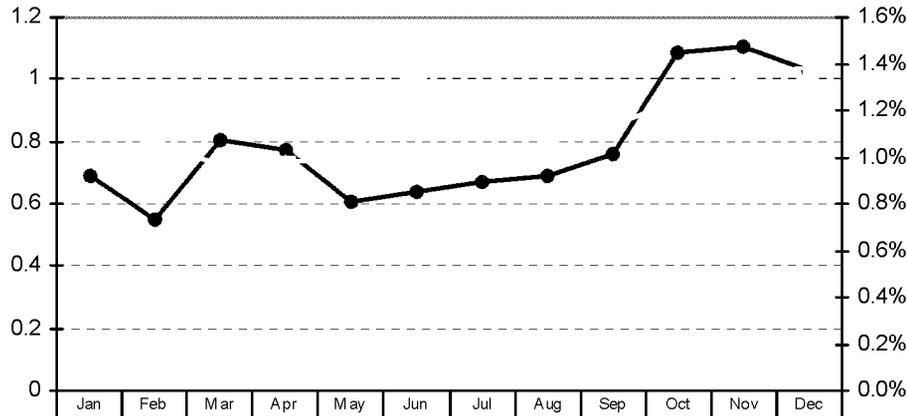


* Lehman loans serviced by Chase Home Finance

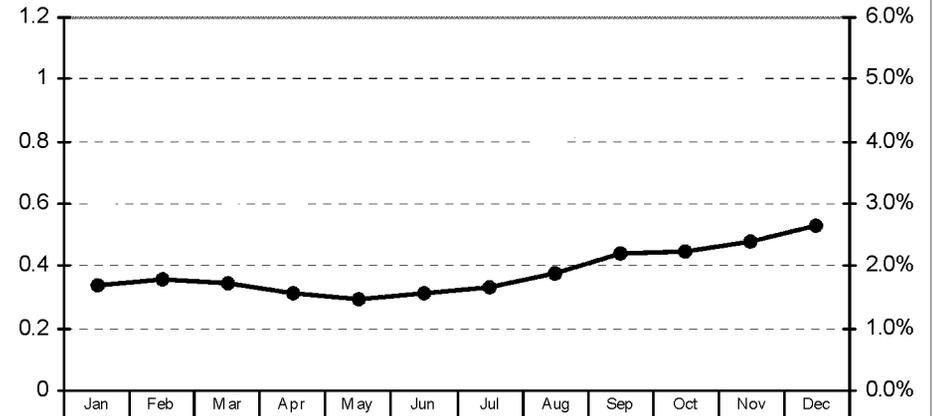
BNC Performance

The FC, BK, and REO inventories are constantly increasing

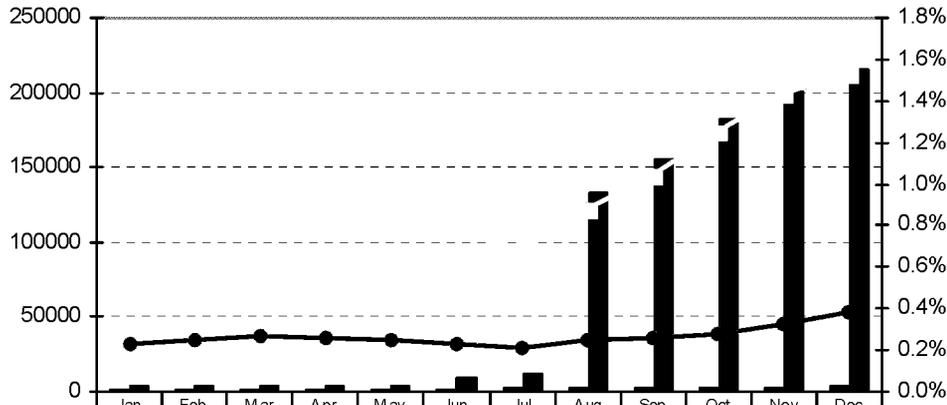
Bankruptcies \$ and % of Outstandings



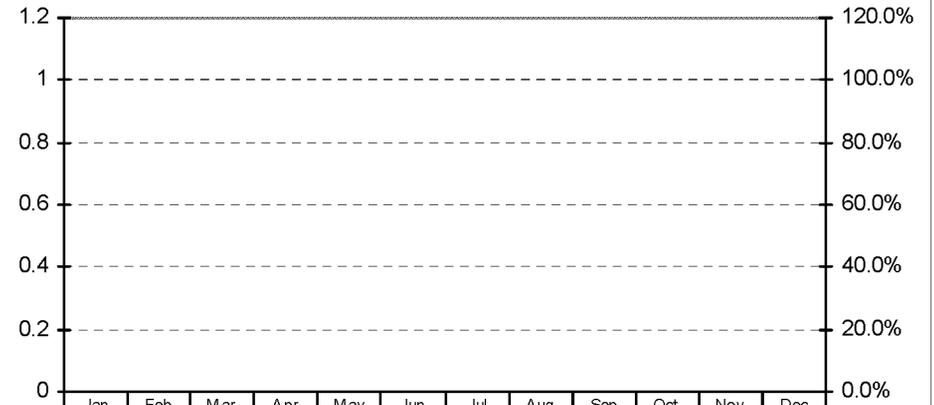
Foreclosures \$ and % of Outstandings



REOs \$ and % of Outstandings



Walks \$ and % of Outstandings



* Lehman loans serviced by Chase Home Finance

LEHMAN BROTHERS

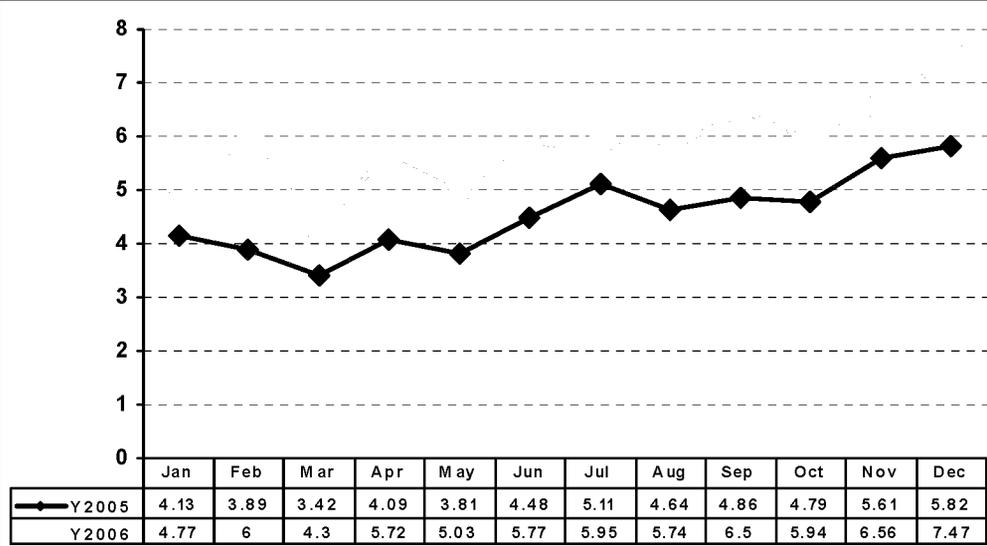
Subprime Servicing

LEHMAN BROTHERS

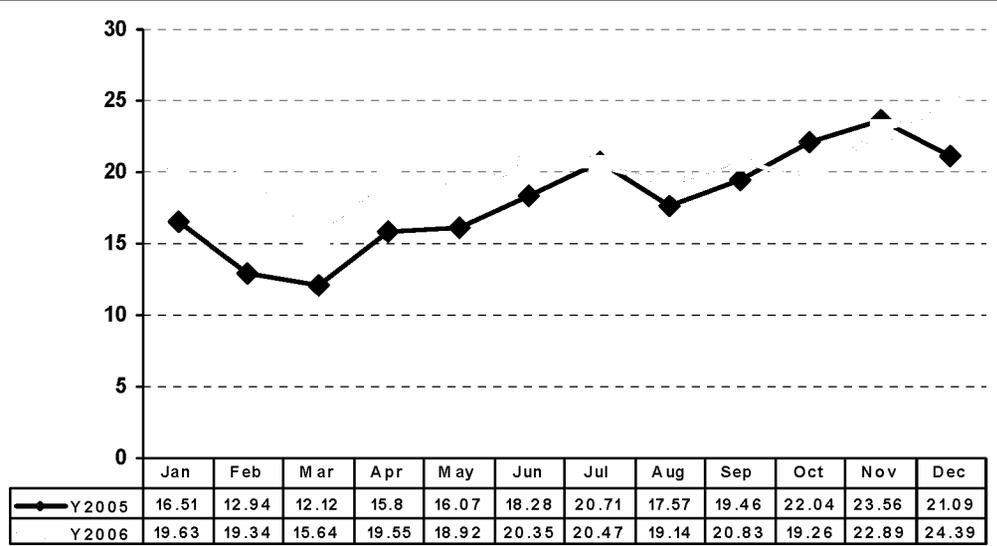
Lehman Subprime Serviced Loans

All rollrates spiked in December, primarily due to servicing issues

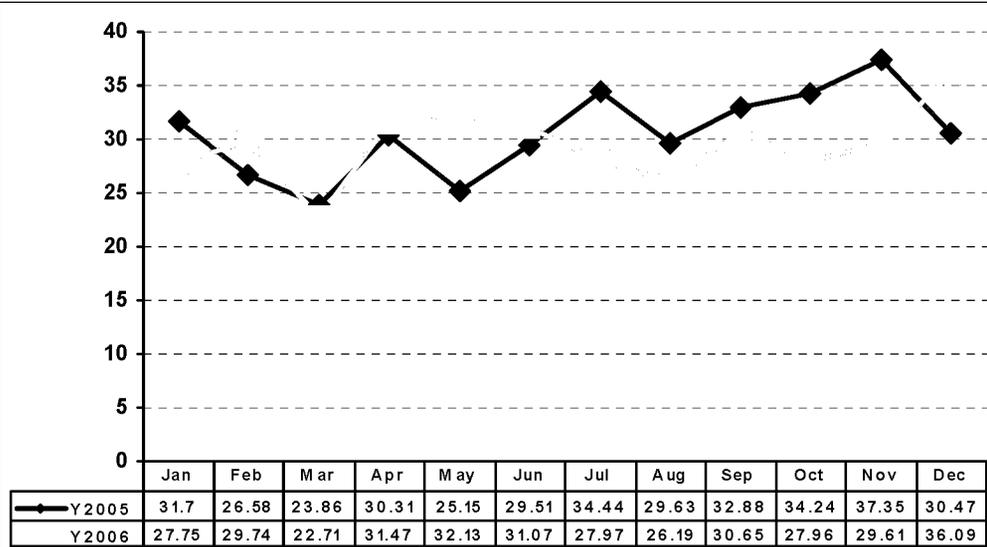
Current Accounts - Rollrates



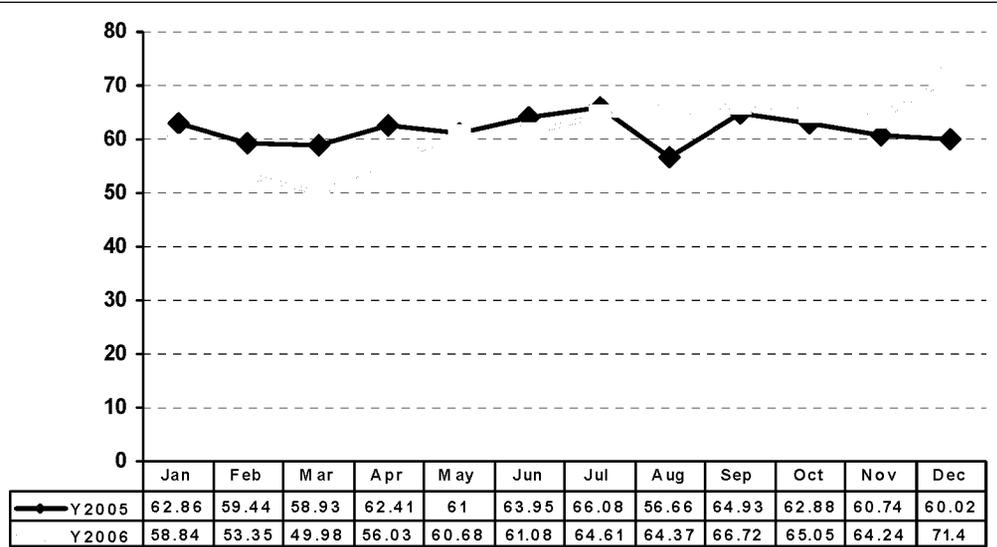
1-29s Accounts - Rollrates



30s Accounts - Rollrates



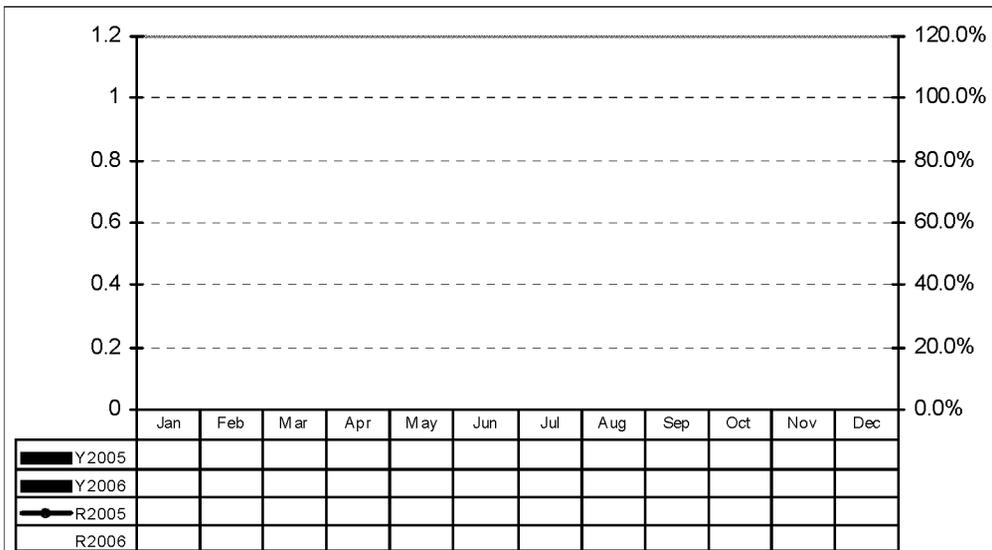
60s Accounts - Rollrates



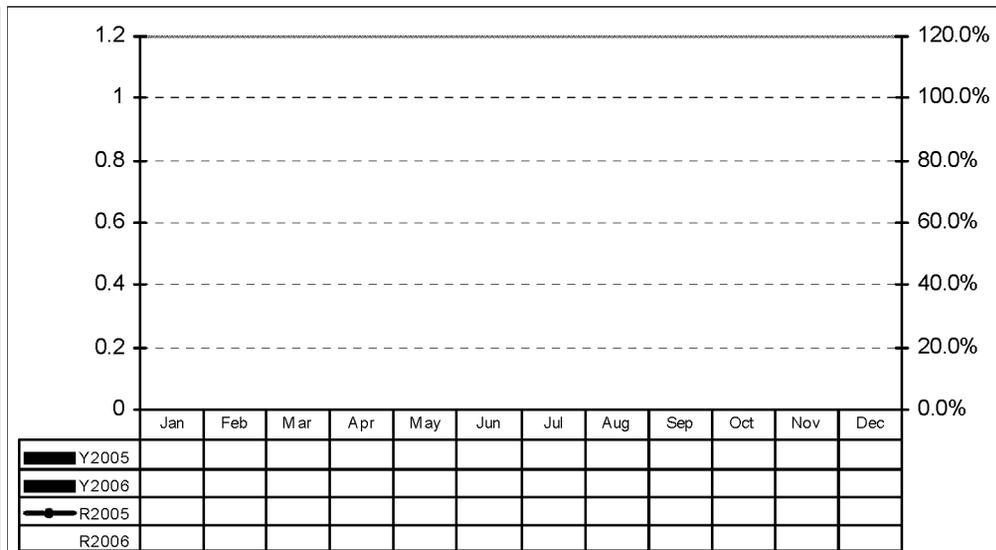
* Lehman loans serviced by Chase Home Finance

Lehman Subprime Serviced Loans

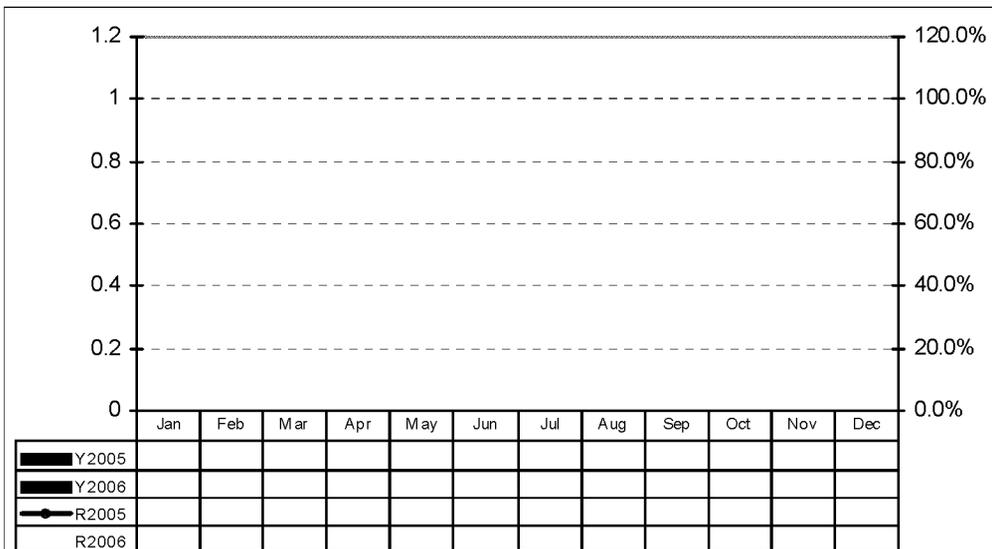
BKs In & Out (Units)



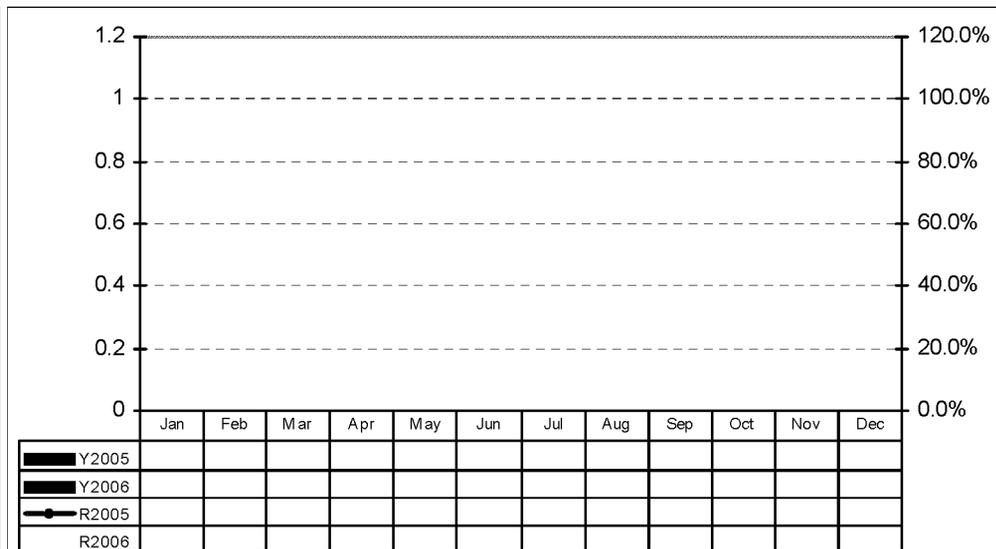
FCs In & Out (Units)



Walks In & Out (Units)



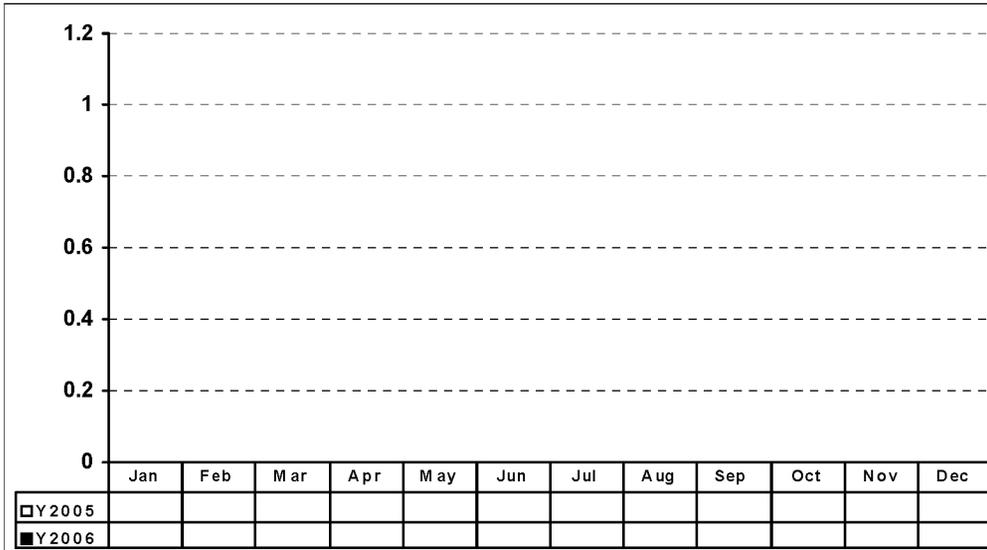
REOs In & Out (Units)



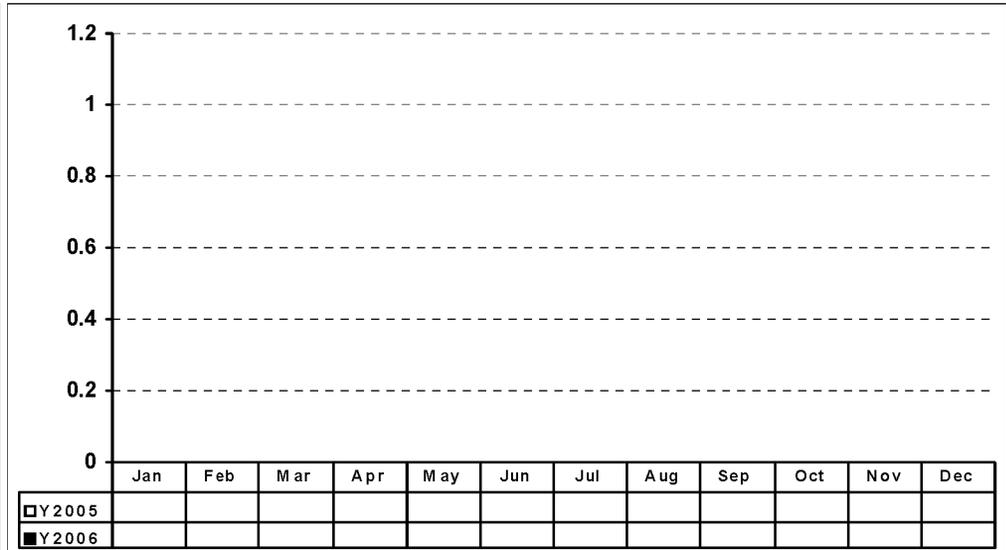
* Lehman loans serviced by Chase Home Finance

Lehman Subprime Serviced Loans

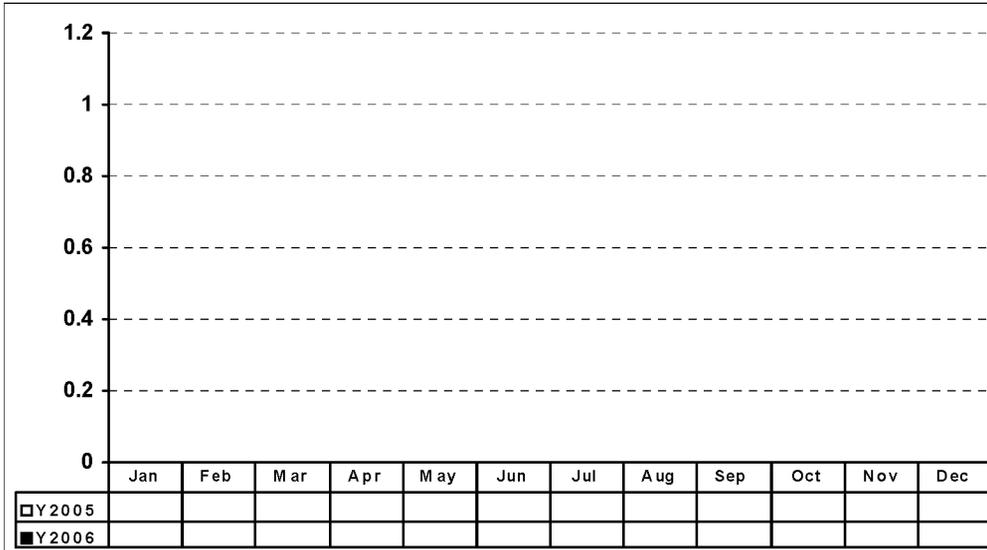
Outbound Calls



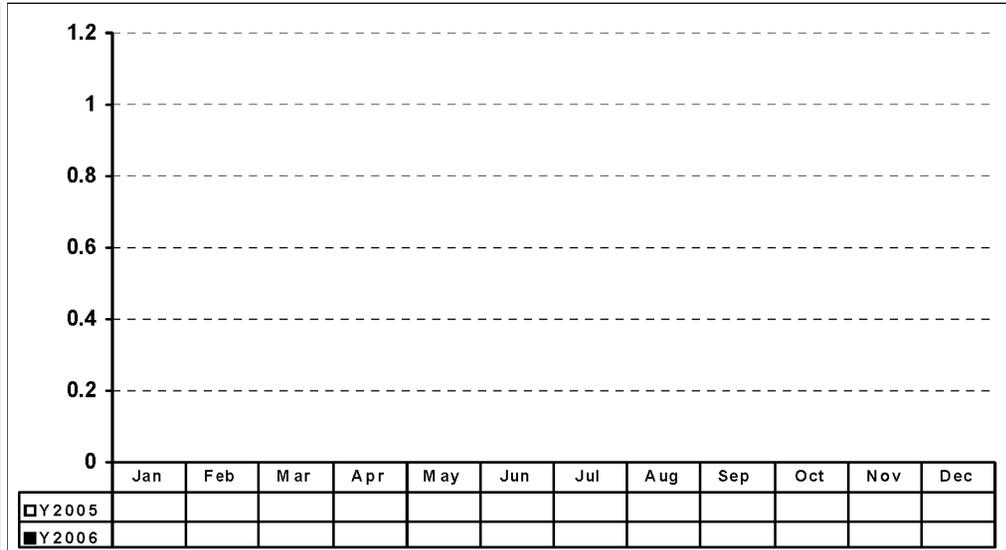
Inbound Calls - Abandonment Rate



Promises to Pay - PTP kept ratio



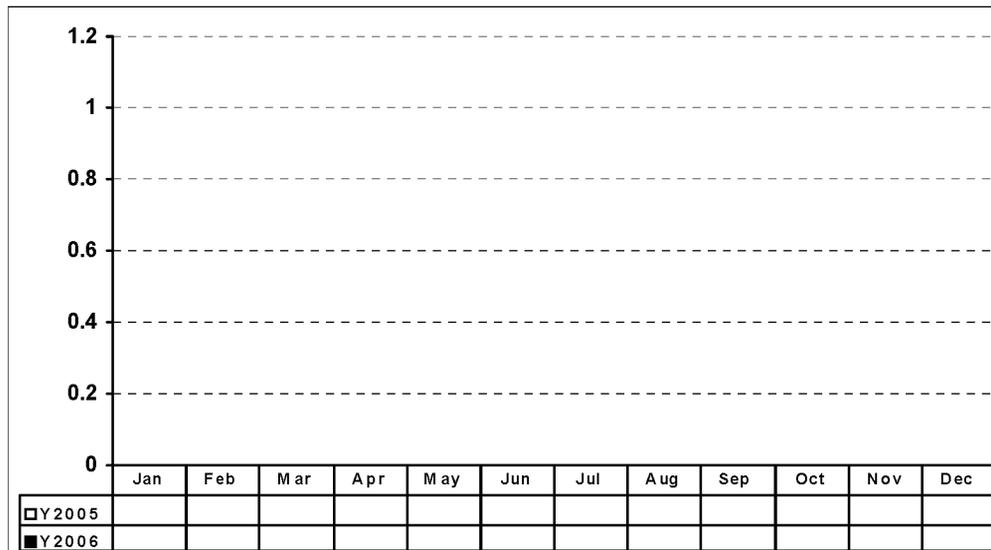
Direct Checks - NSF Rate



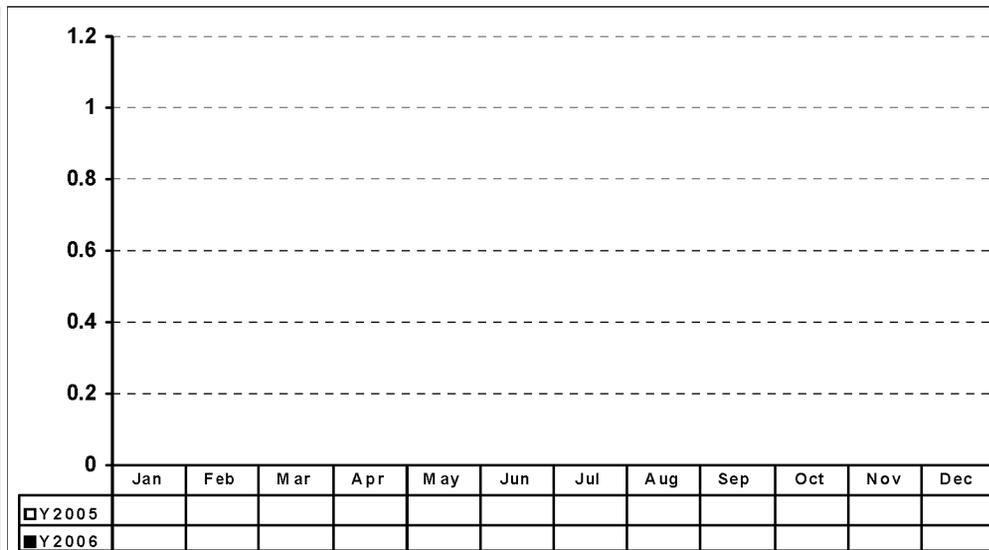
* Lehman loans serviced by Chase Home Finance

Lehman Subprime Serviced Loans

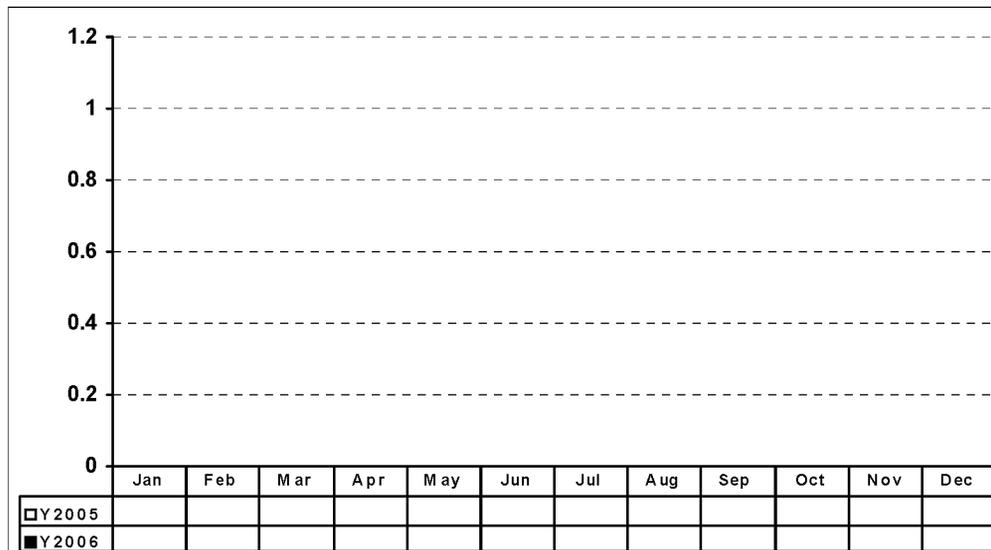
1-29s - Outbound Calls



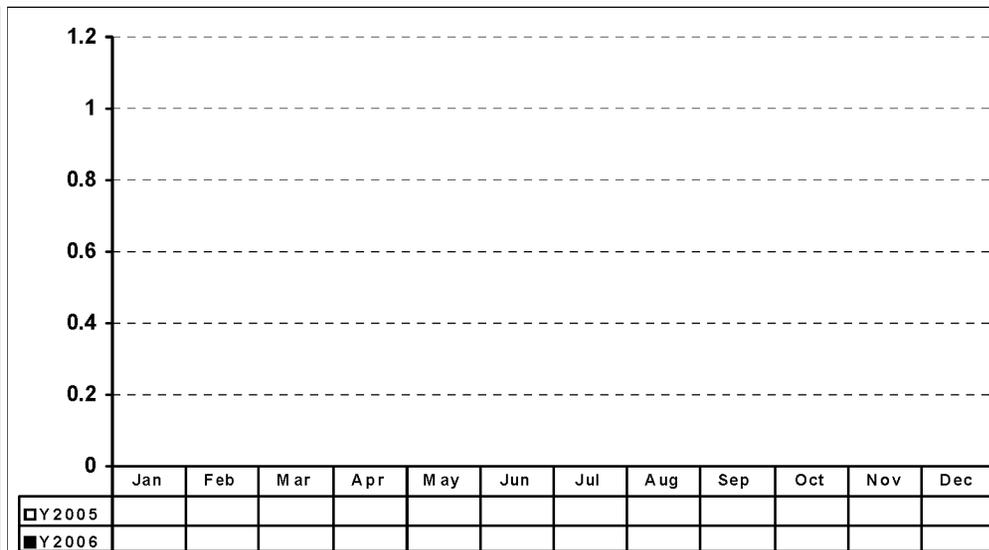
1-29s - Inbound Calls - Abandonment Rate



1-29s - Promises to Pay - PTP kept ratio



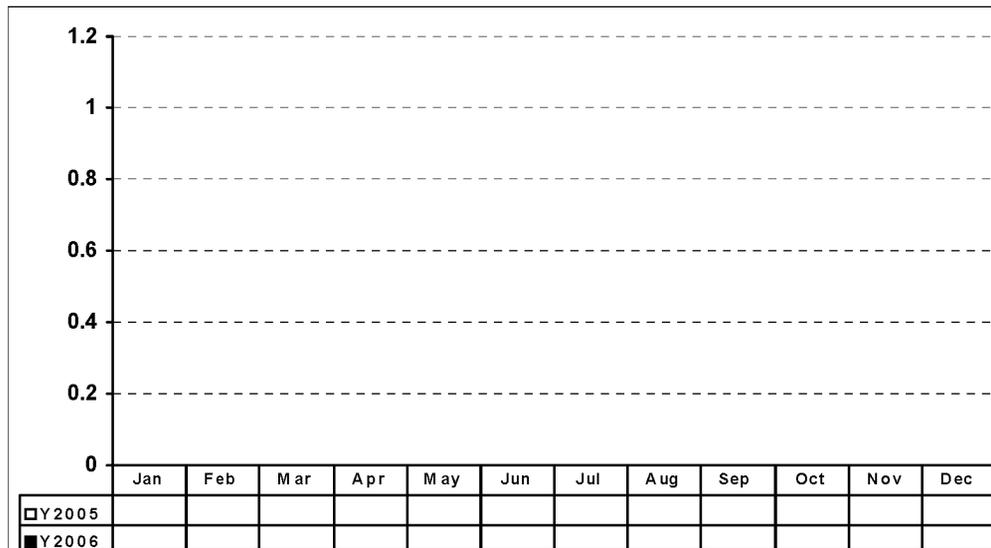
1-29s - Direct Checks - NSF Rate



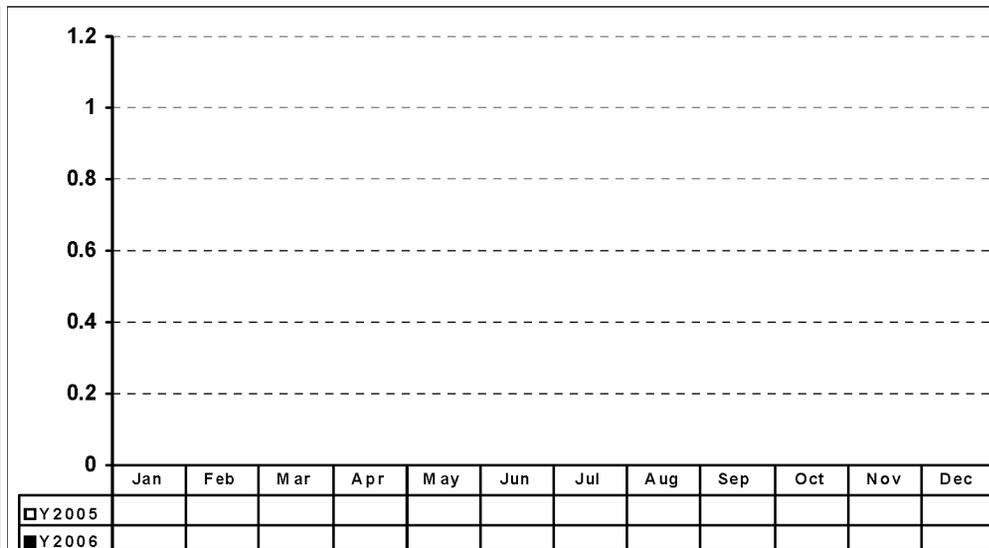
* Lehman loans serviced by Chase Home Finance

Lehman Subprime Serviced Loans

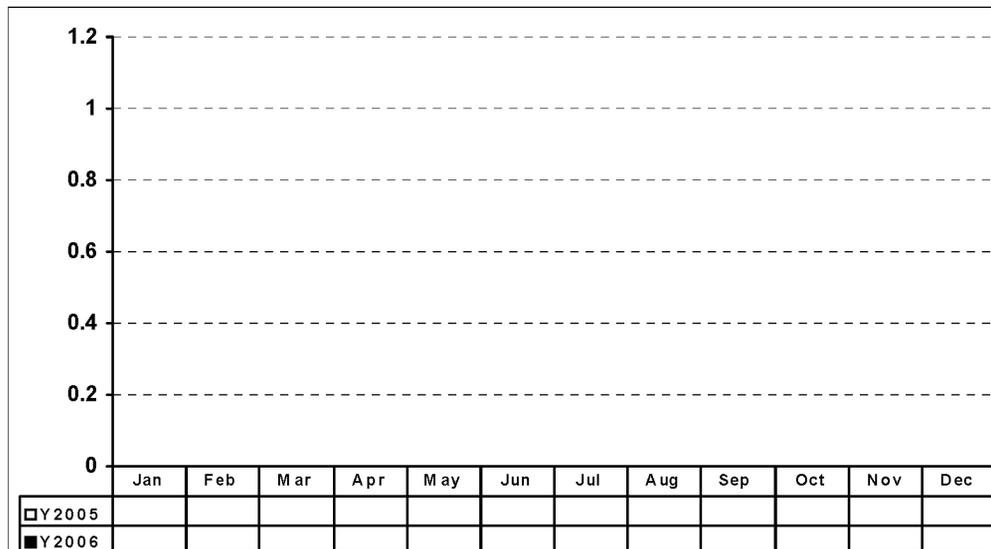
30+ - Outbound Calls



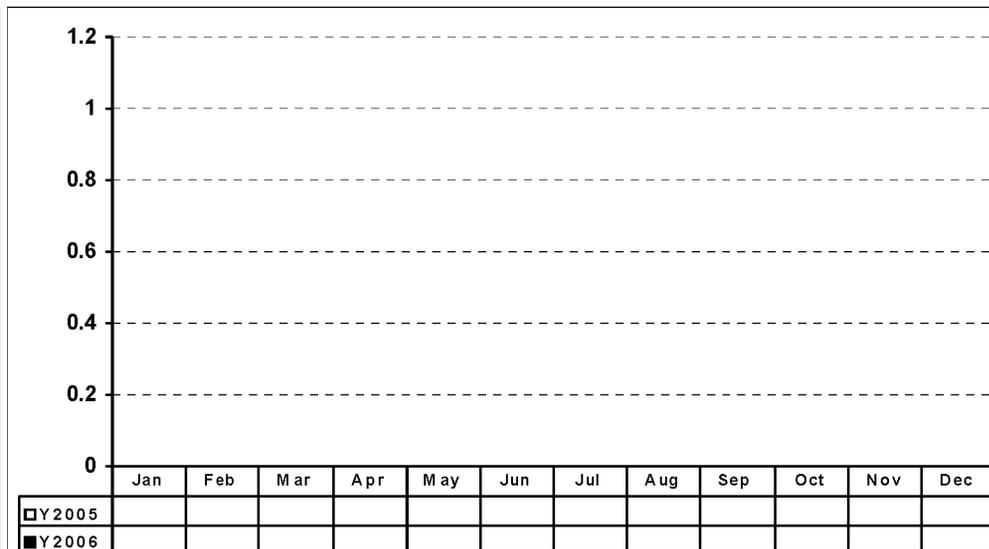
30+ - Inbound Calls - Abandonment Rate



30+ - Promises to Pay - PTP kept ratio



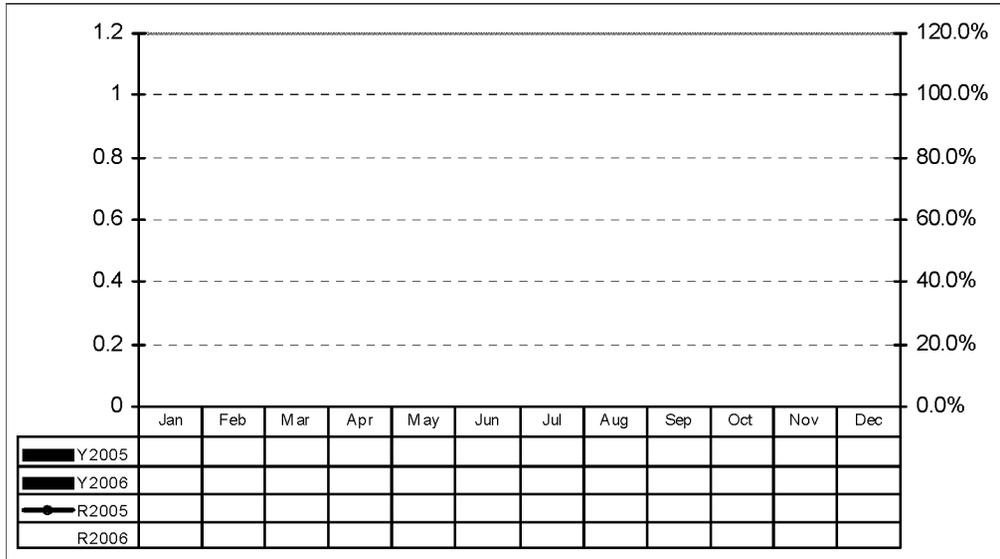
30+ - Direct Checks - NSF Rate



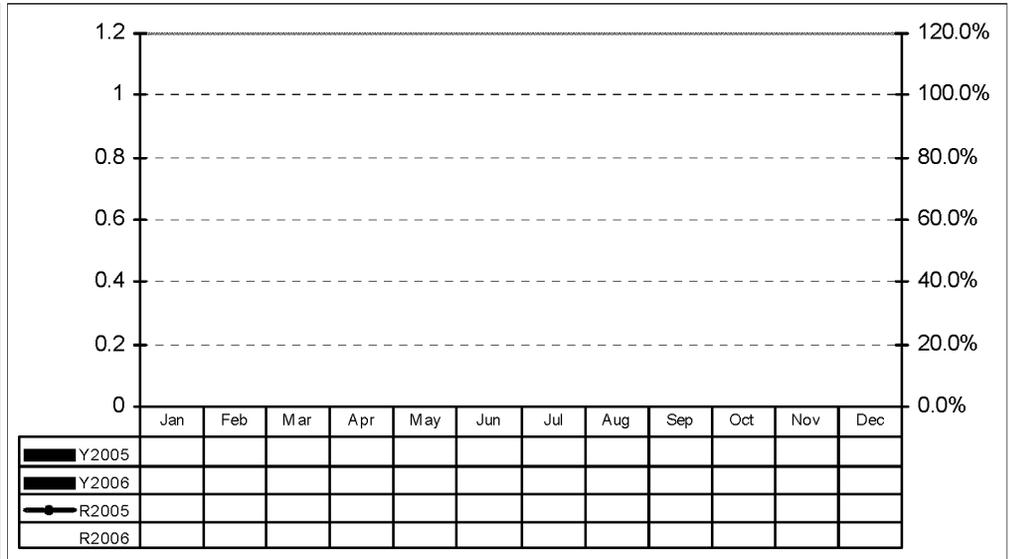
* Lehman loans serviced by Chase Home Finance

Lehman Subprime Serviced Loans

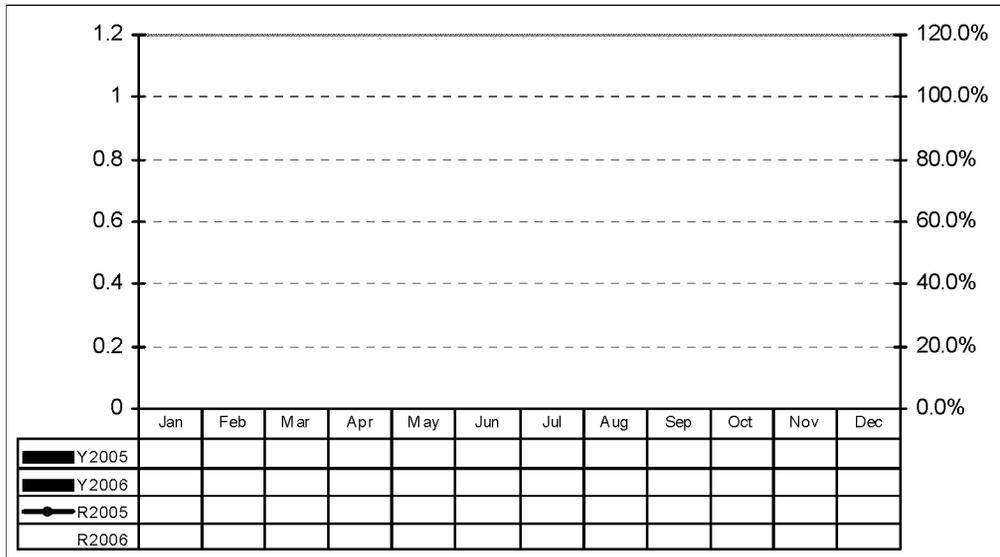
Modifications - % Delinquent after 6 months



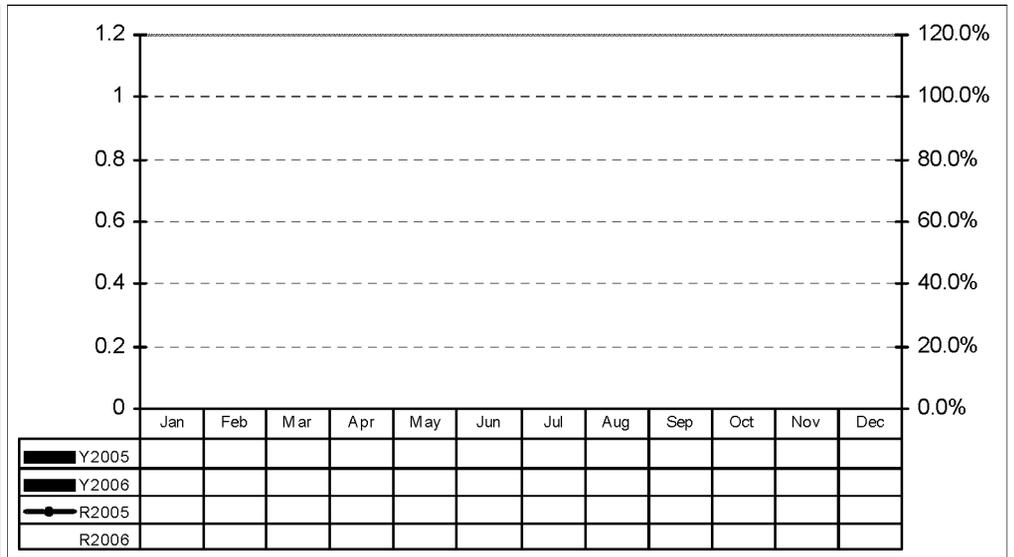
Modifications - % Delinquent after 12 months



Payment Plans - % Delinquent after 6 months

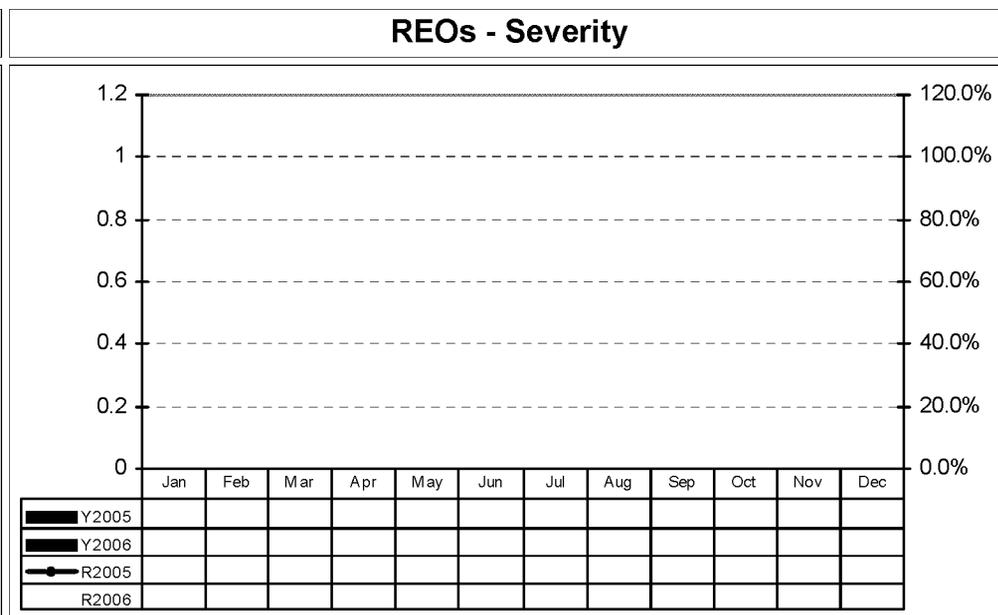
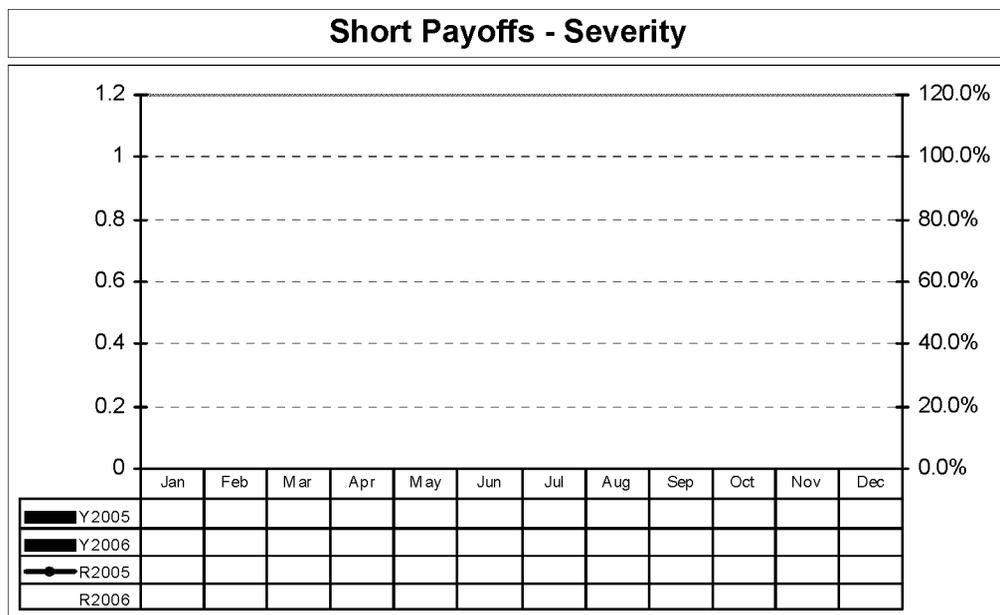
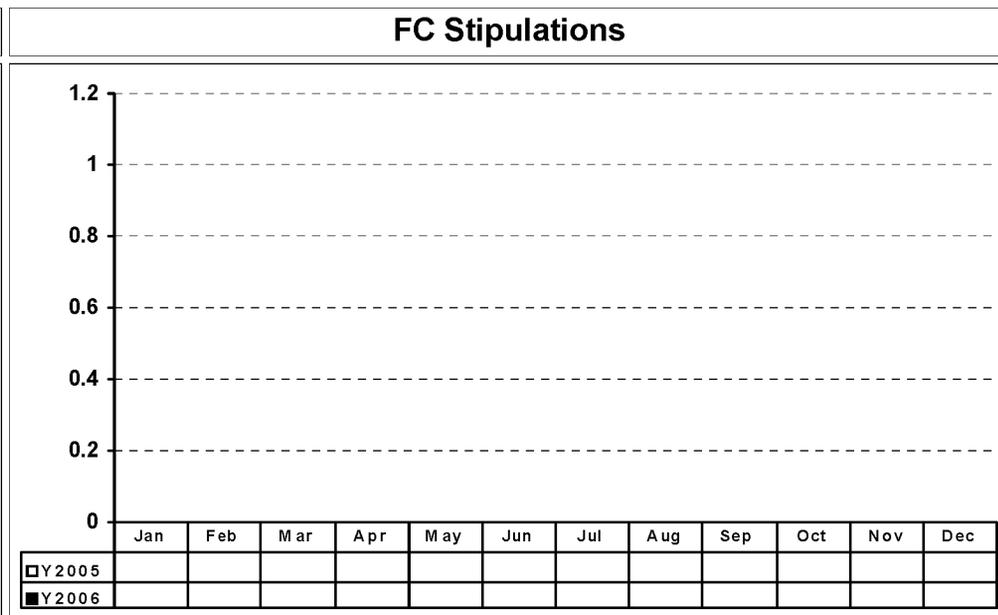
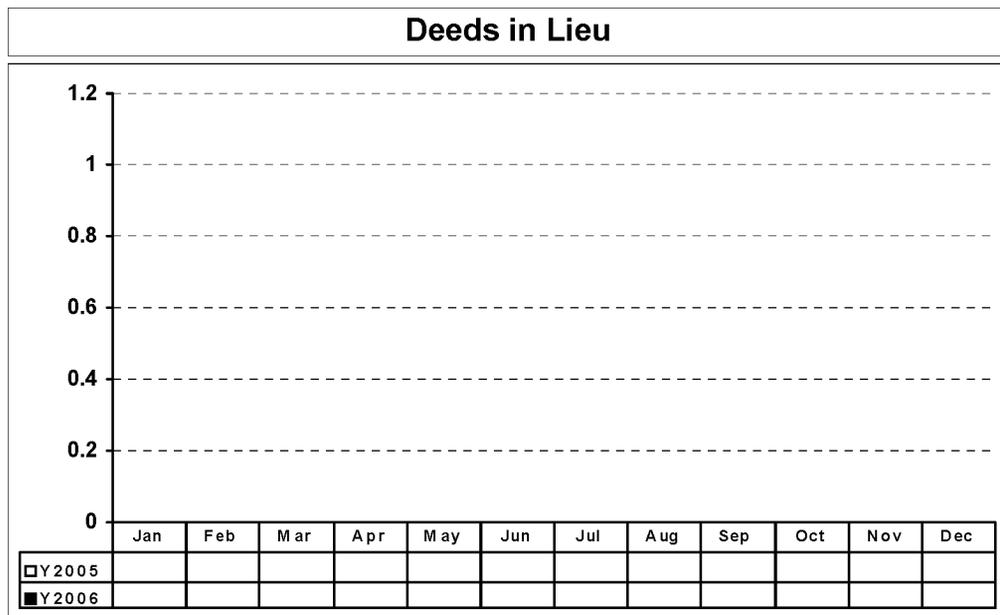


Payment Plans - % Delinquent after 12 months



* Lehman loans serviced by Chase Home Finance

Lehman Subprime Serviced Loans



* Lehman loans serviced by Chase Home Finance

Subprime Vintages

LEHMAN BROTHERS

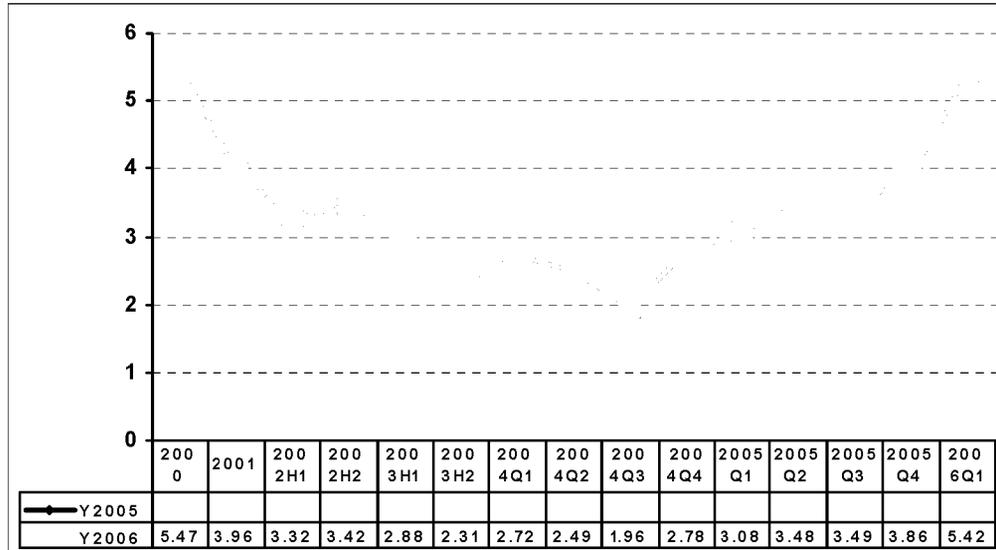
FOIA CONFIDENTIAL TREATMENT REQUESTED BY
LEHMAN BROTHERS HOLDINGS INC.

LBEX-DOCID 251077

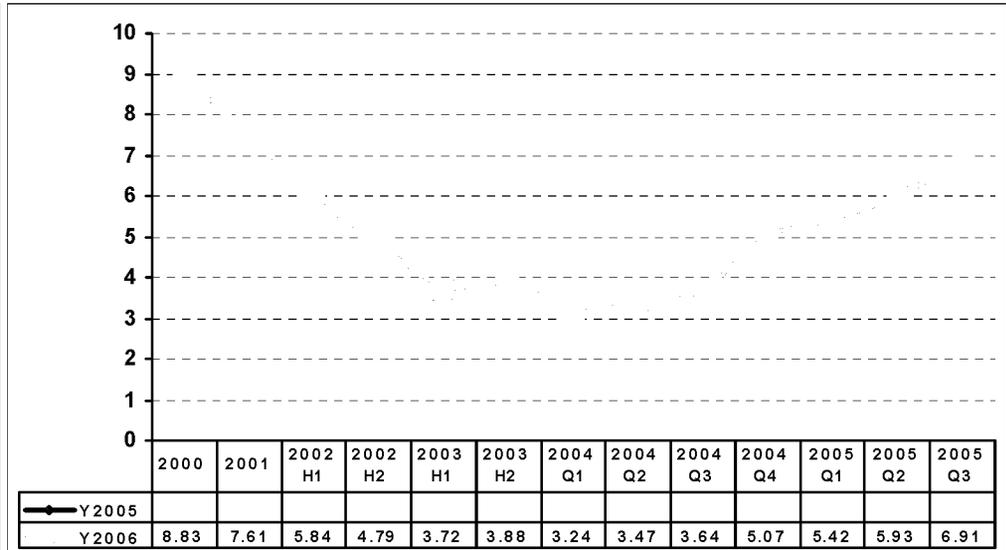
Vintages

The deterioration in performance since 2004 continues

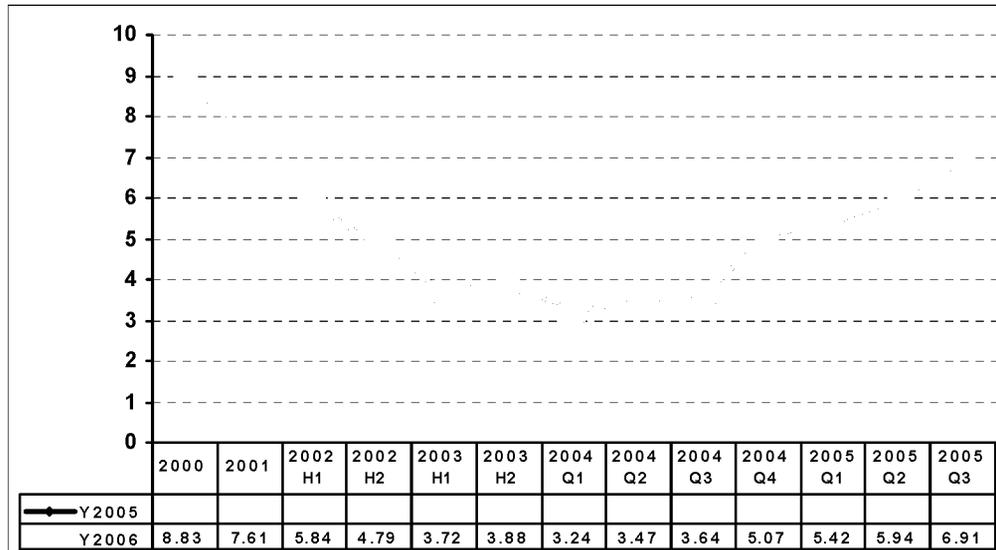
Ever 60+ after 6 months - \$



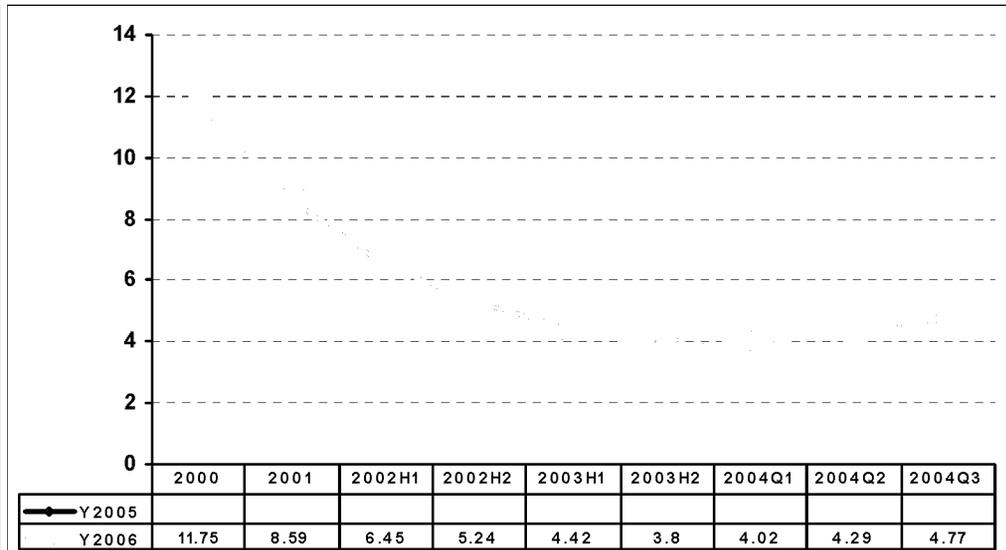
Ever 60+ after 12 months - \$



Ever 60+ after 18 months - \$

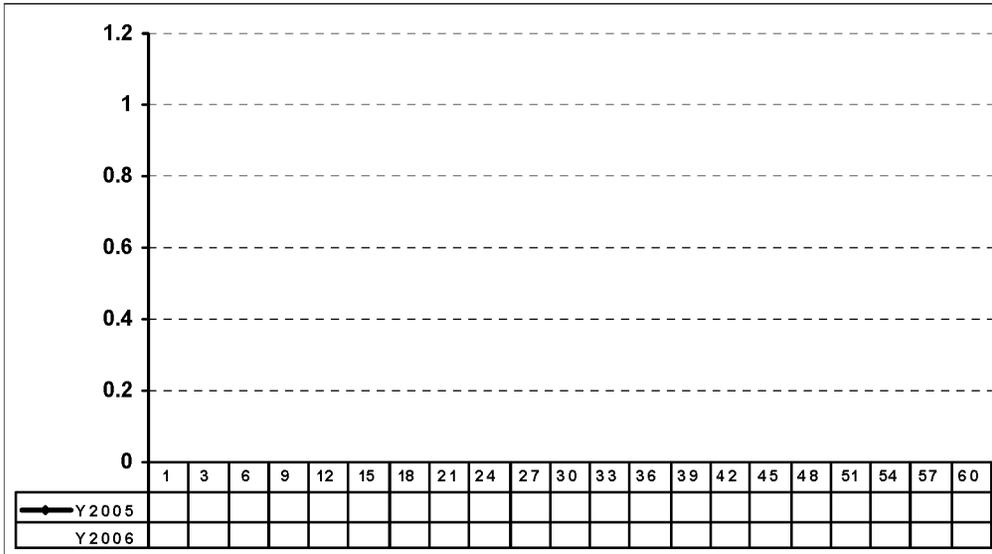


Ever 60+ after 24 months - \$

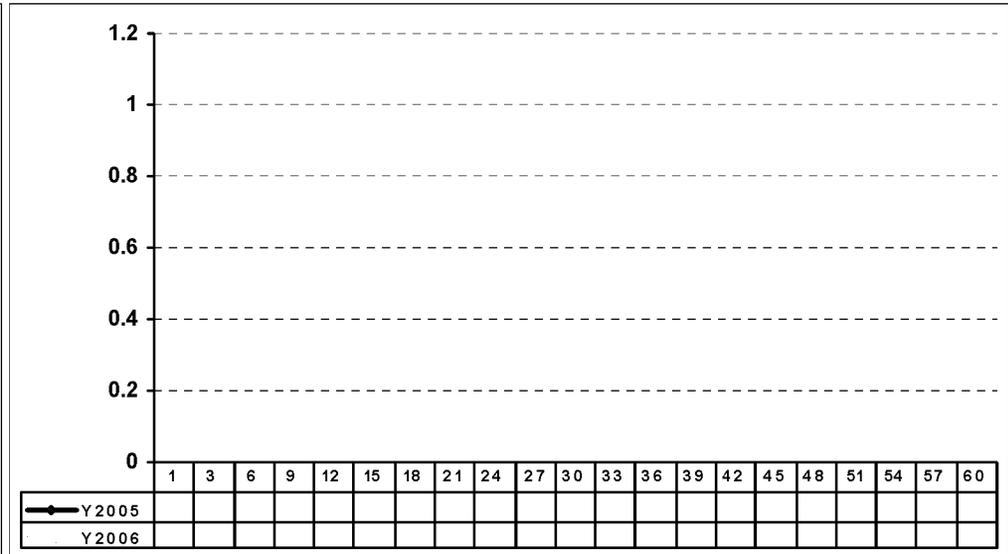


Vintages

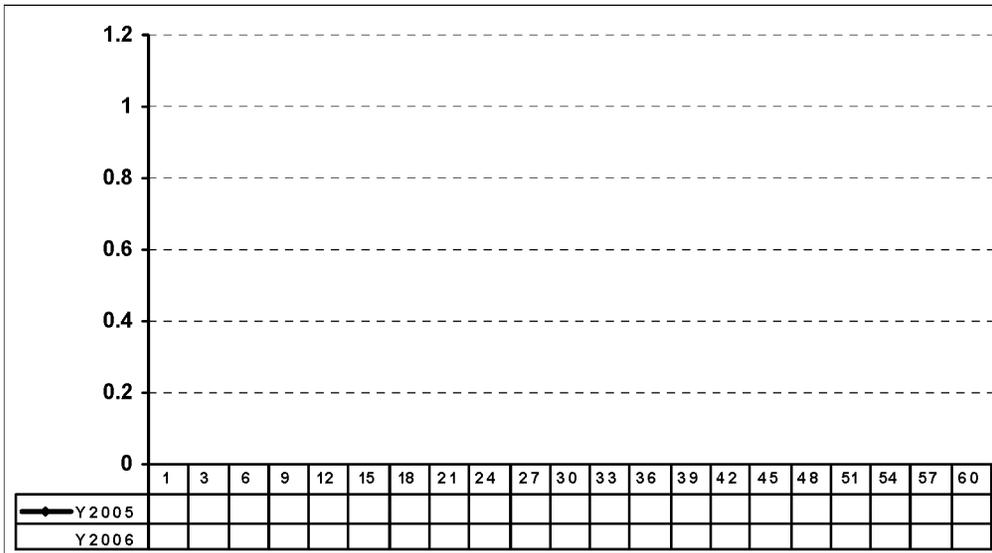
Vintage - 30+



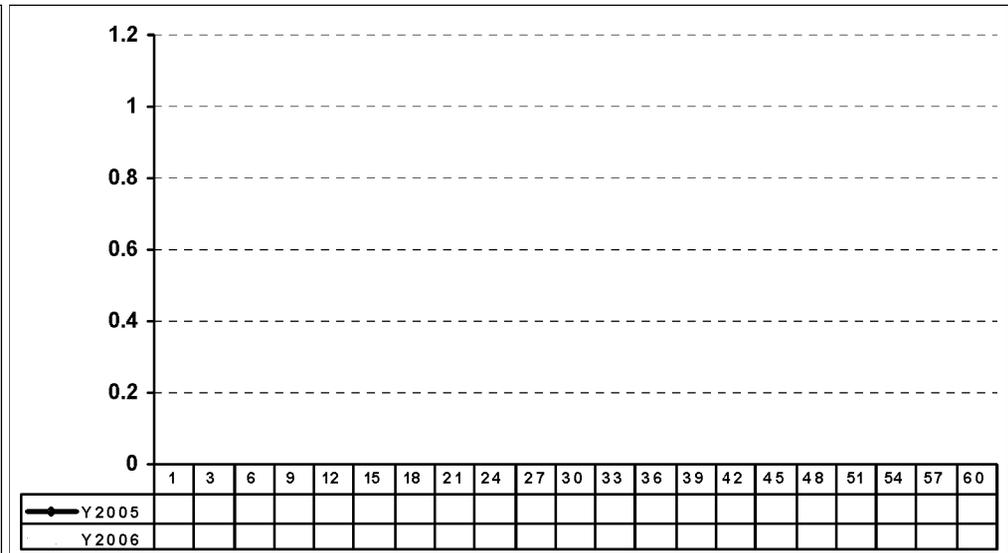
Vintage - 60+



Vintage - 90+

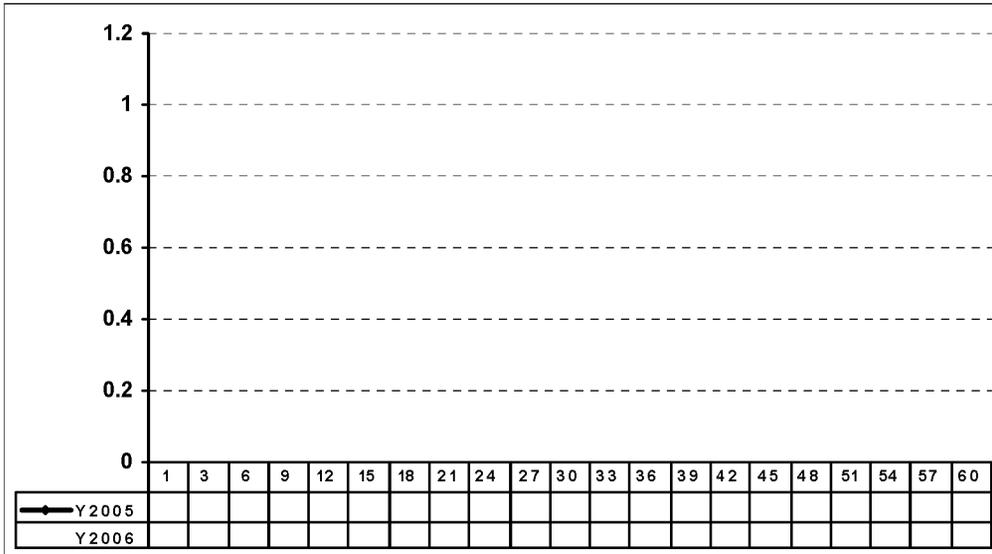


Vintage - Foreclosure

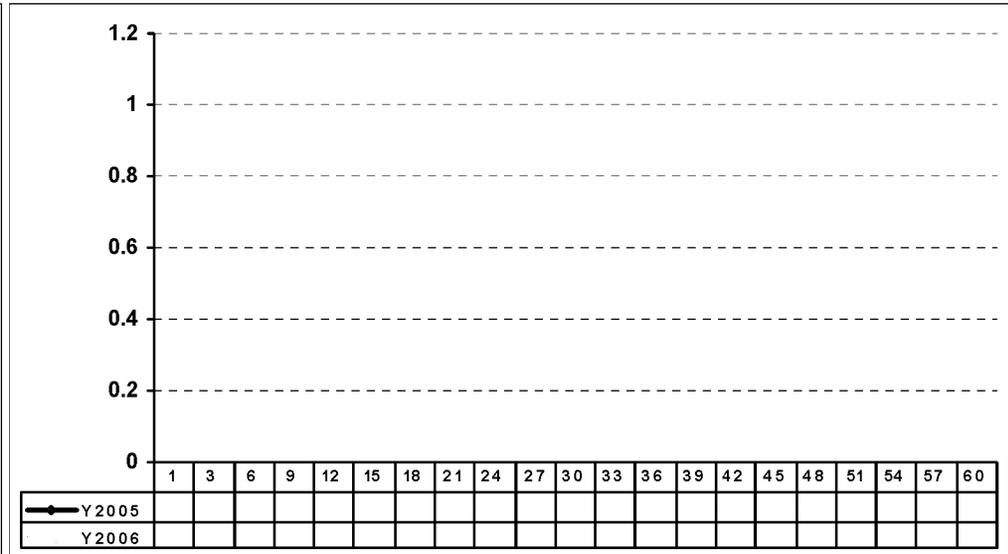


Vintages

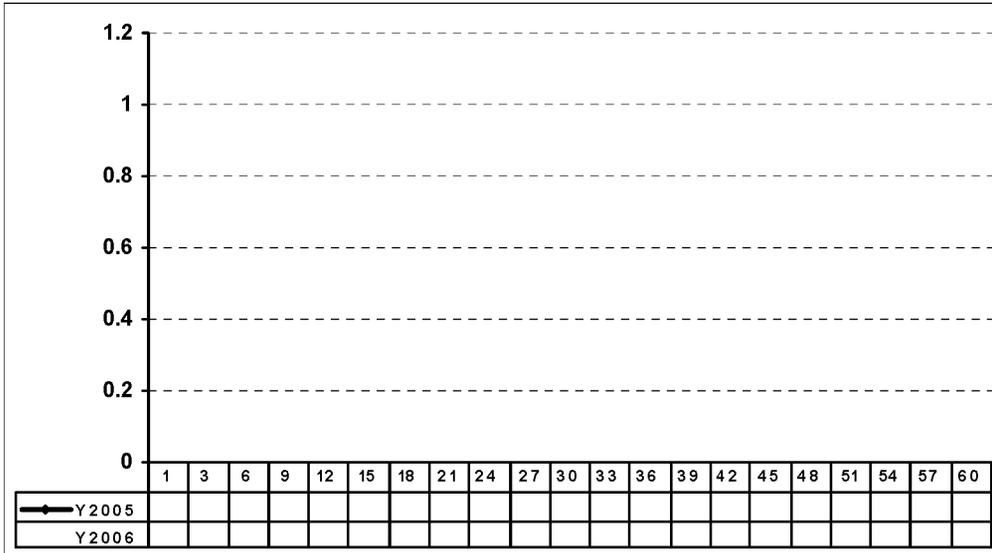
Vintage - BK 7



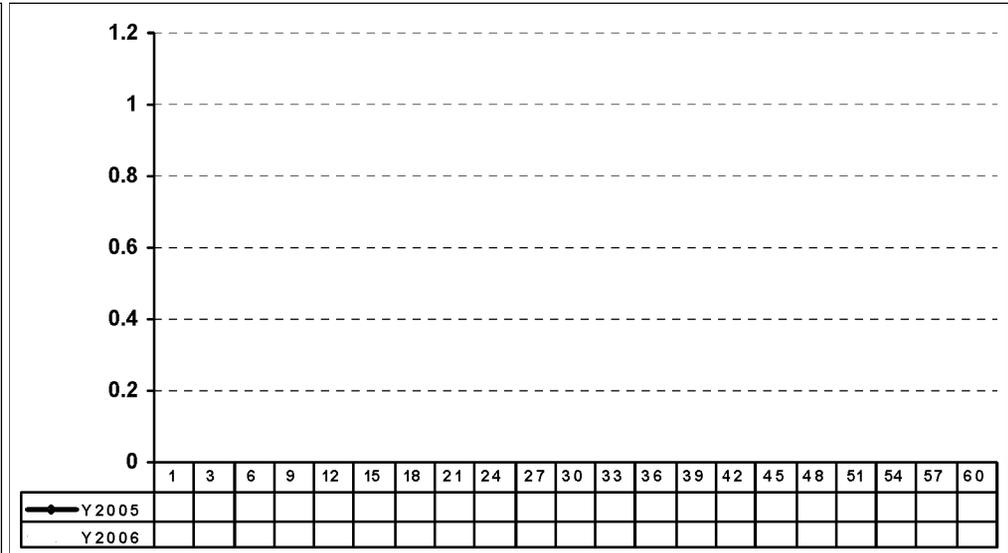
Vintage - BK 13



Vintage - CPR1



Vintage - Cumulative CPR



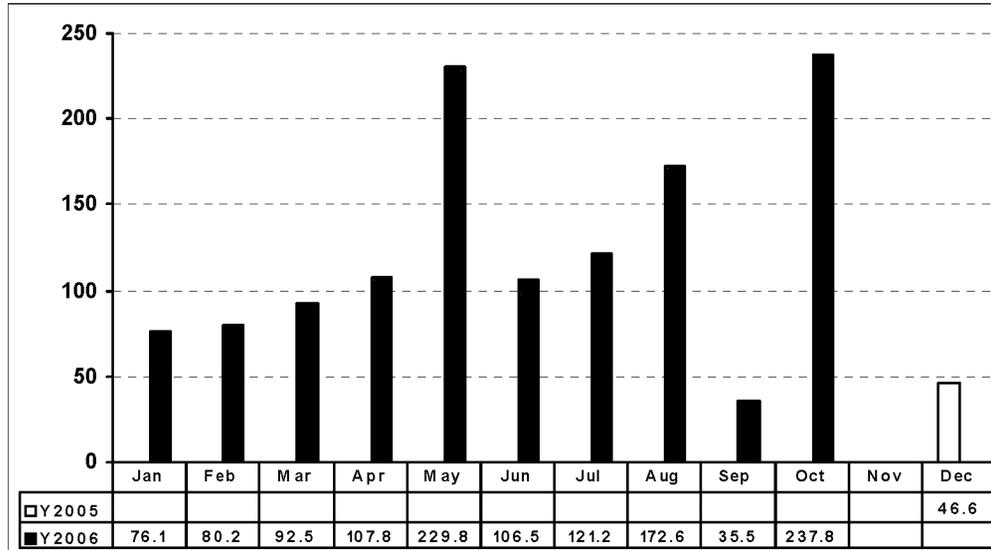
Contract Administration

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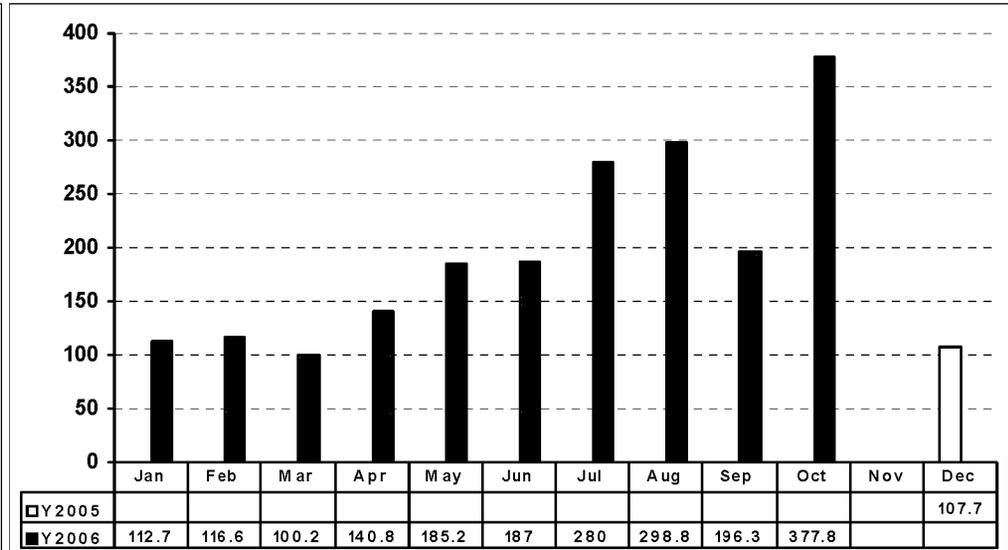
Contract Admin

3rd party EPDs fluctuation in September is due to the timing of identification of claims

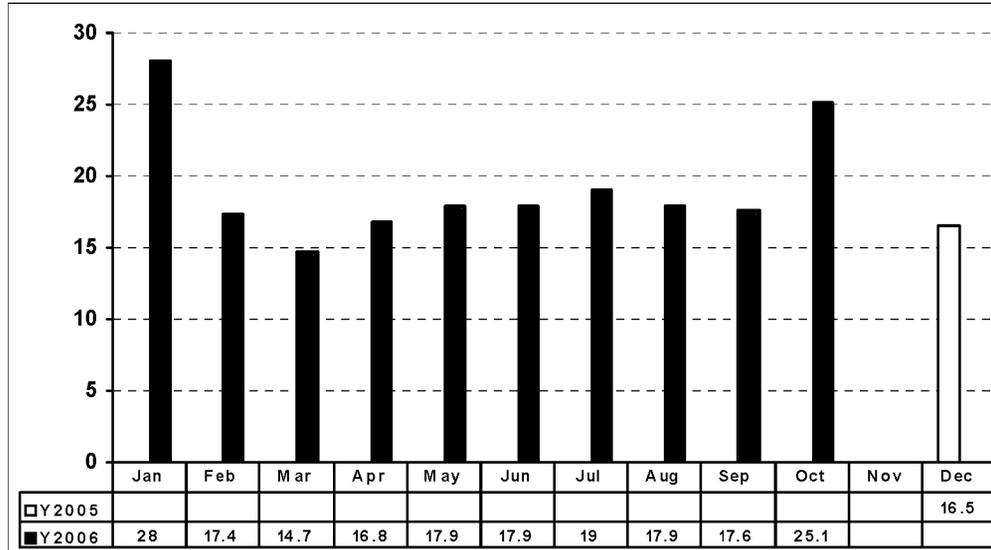
Subprime - New 3rd party EPD claims (\$)



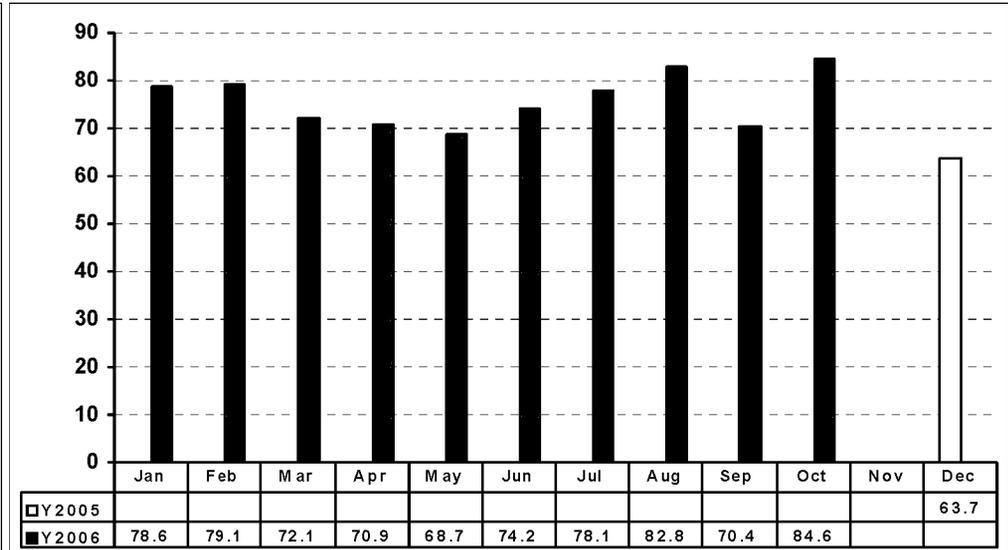
Subprime - Total 3rd party EPD claims (\$)



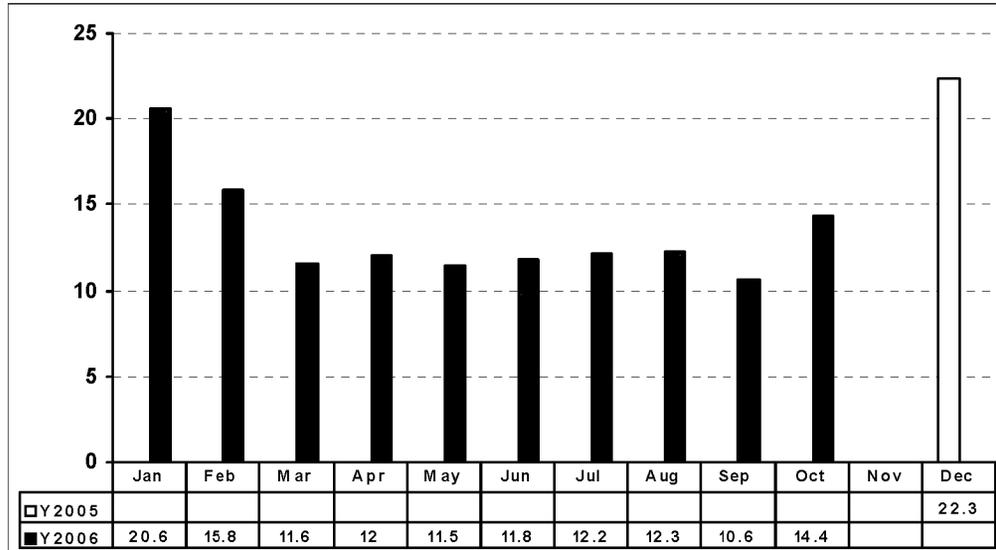
Subprime - New 3rd party R&W claims (\$)



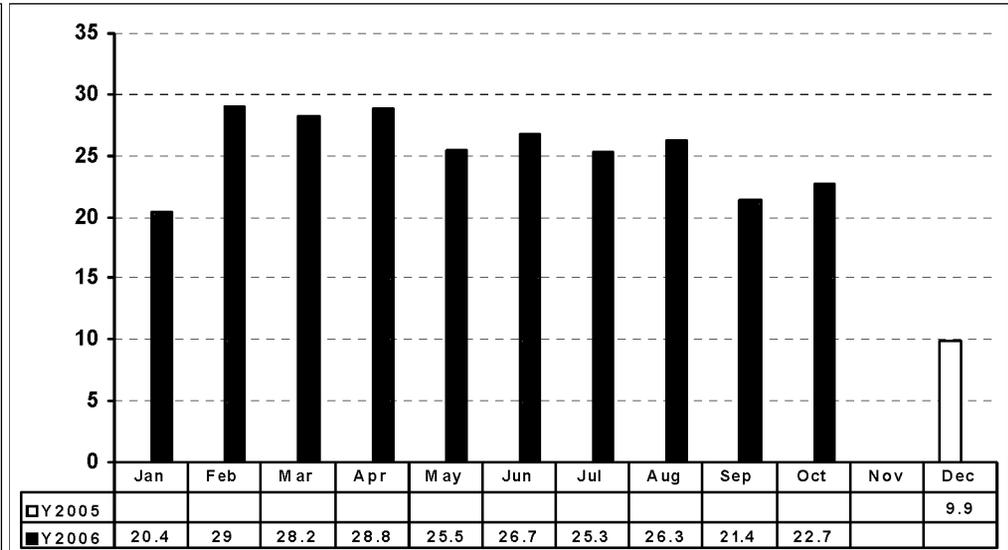
Subprime - Total 3rd party R&W claims (\$)



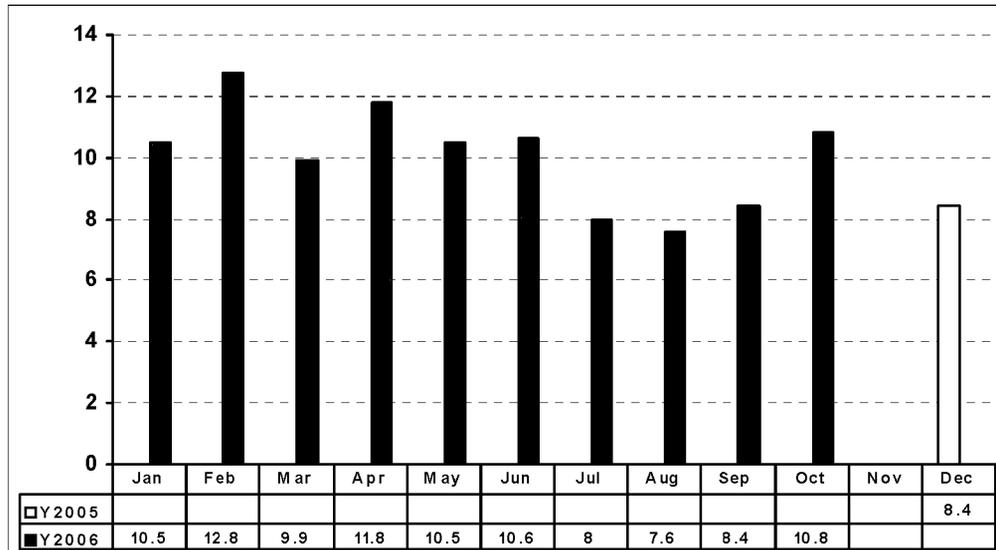
Subprime 3rd Party Repurchase Exposure (\$)



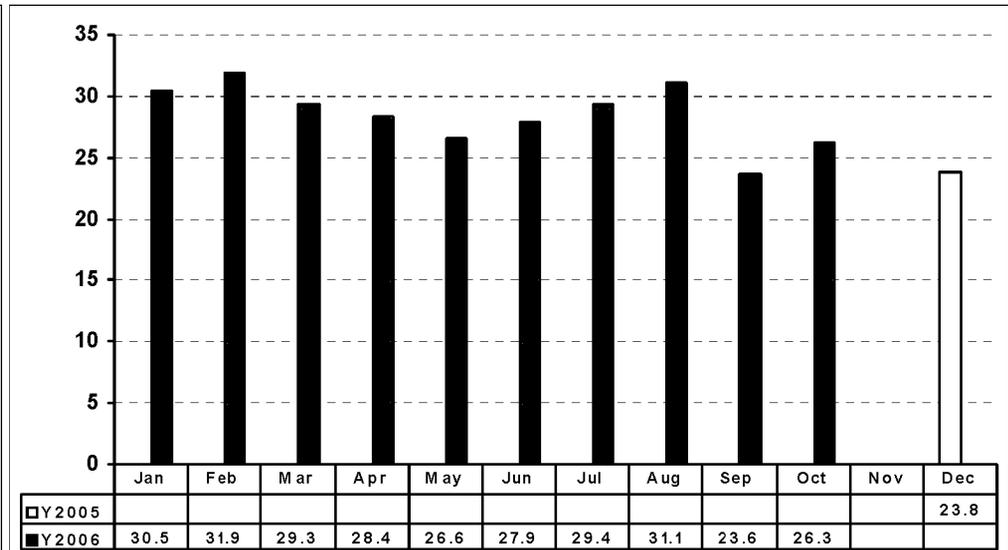
Subprime 3rd Party Makewhole Exposure (\$)



Lehman Subprime Net Subprime Exposure (\$)



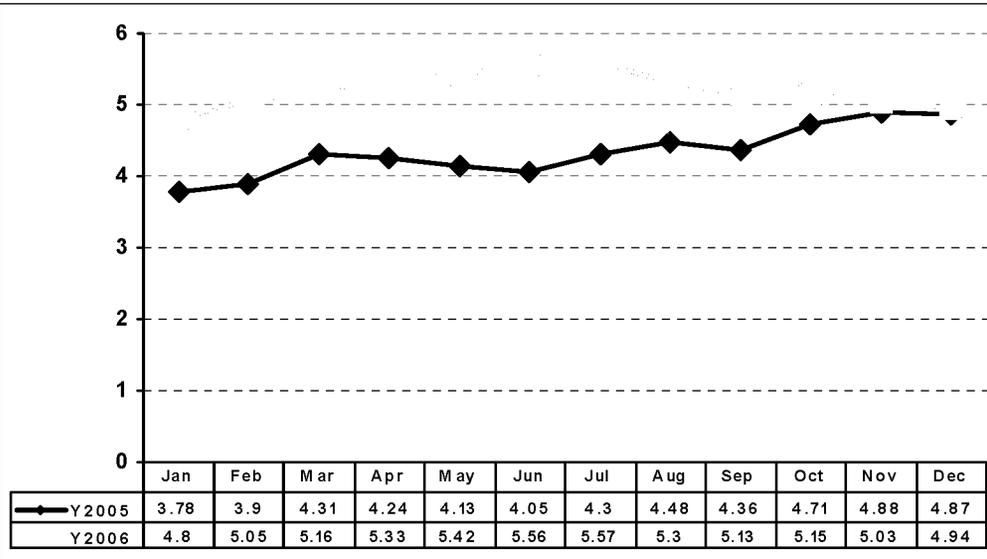
Trust Subprime Net Subprime Exposure (\$)



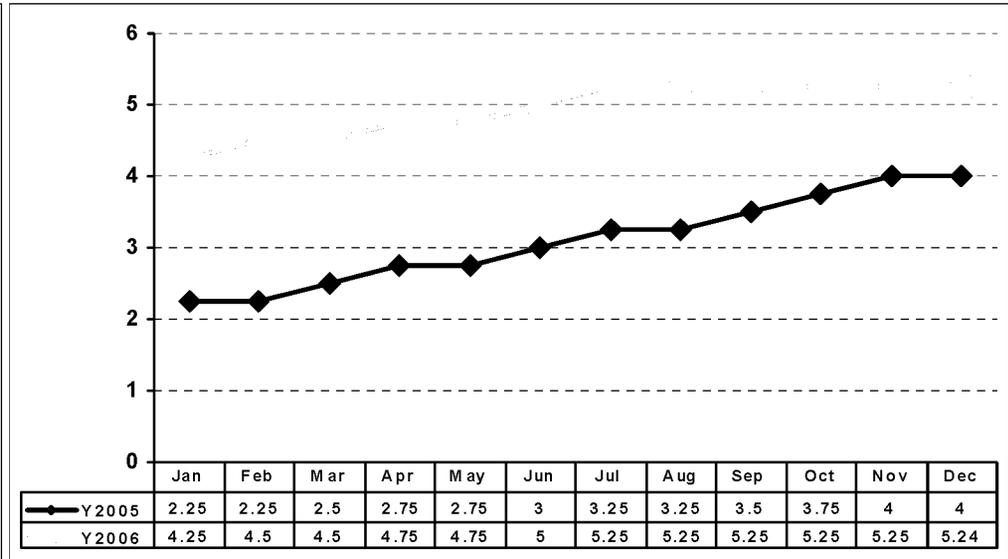
Industry Trends

LEHMAN BROTHERS

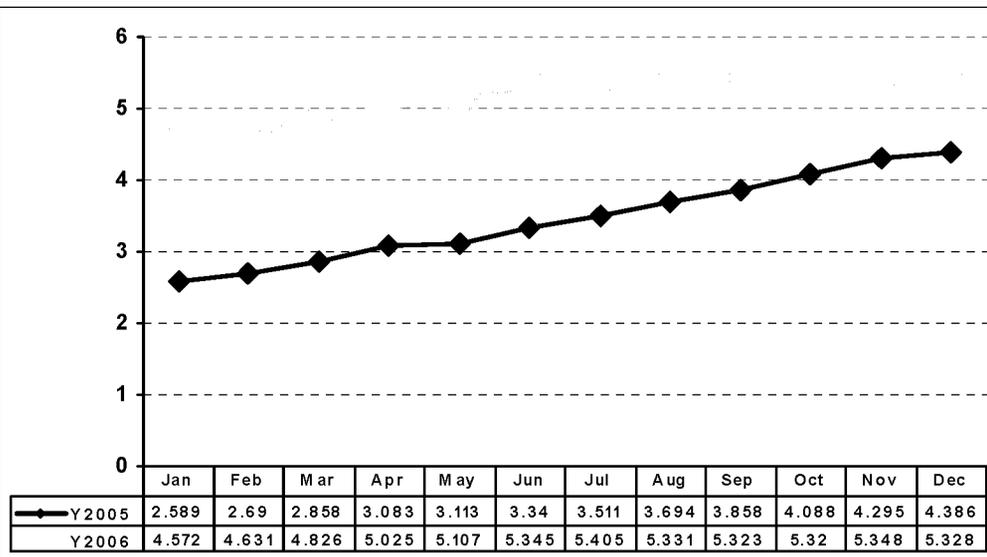
3 Year Swap Rate



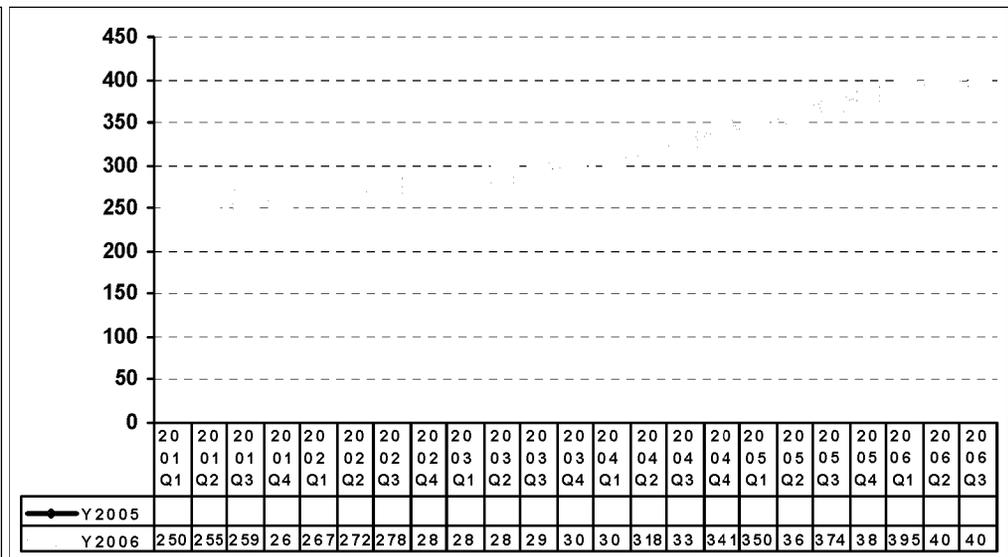
Fed funds effective rate - 1st of month



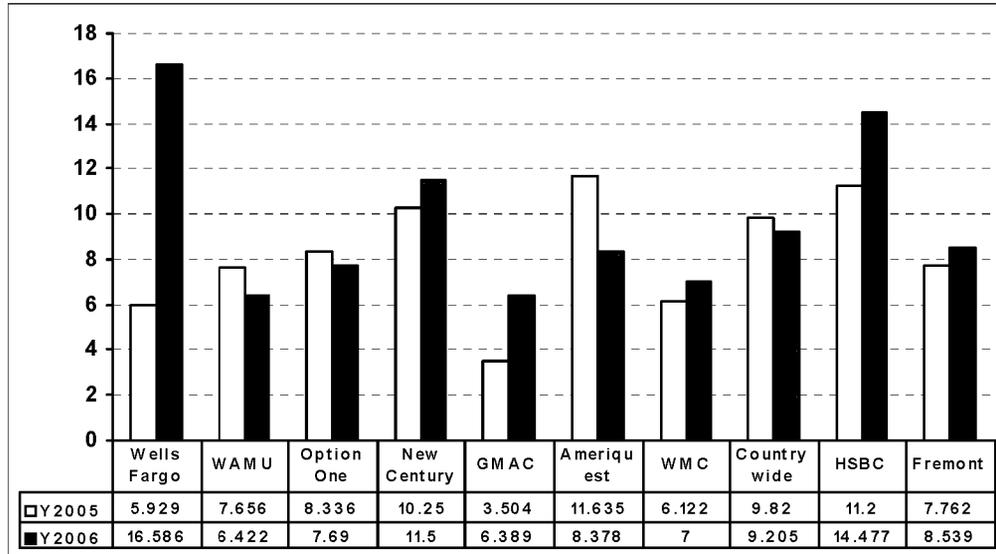
1 month LIBOR



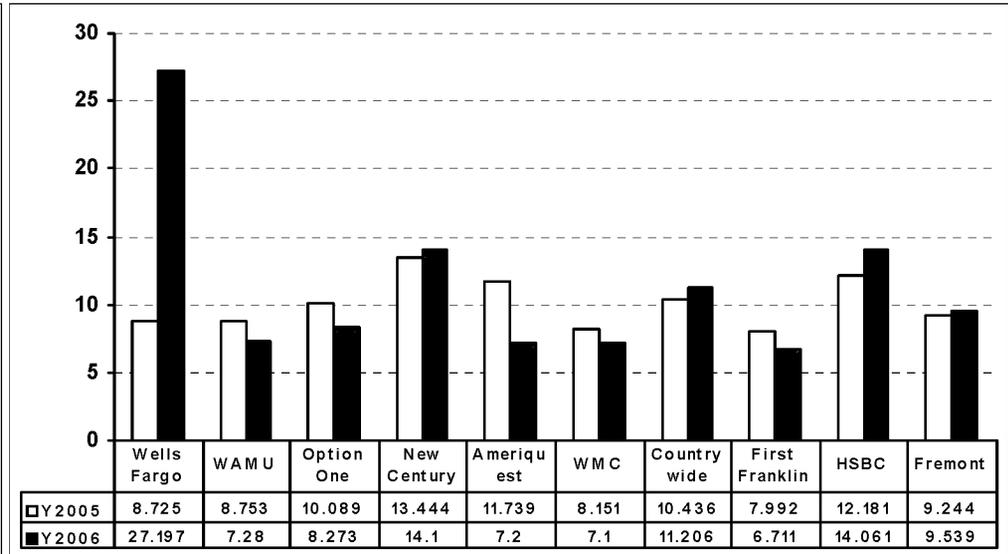
Home Price Index - USA



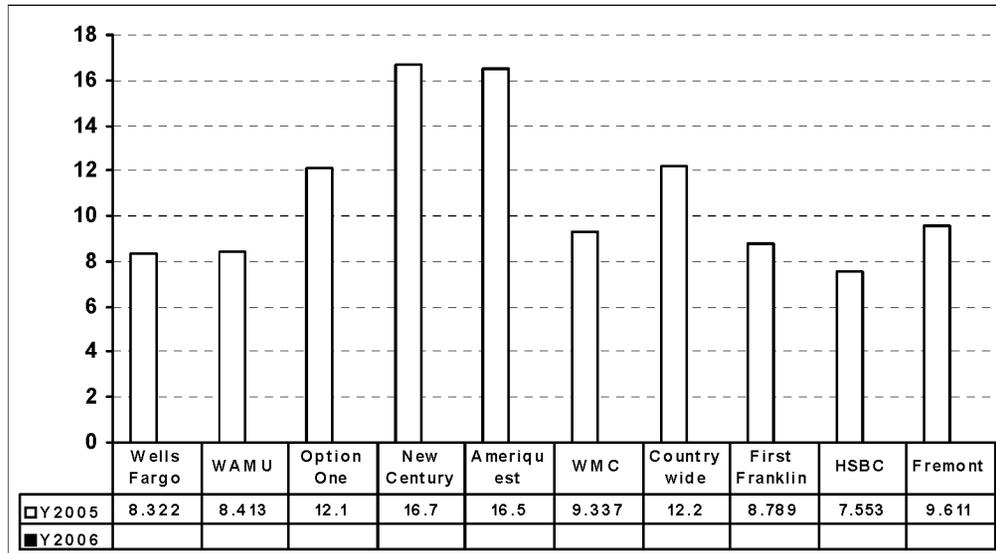
Industry Subprime Originations - Q1



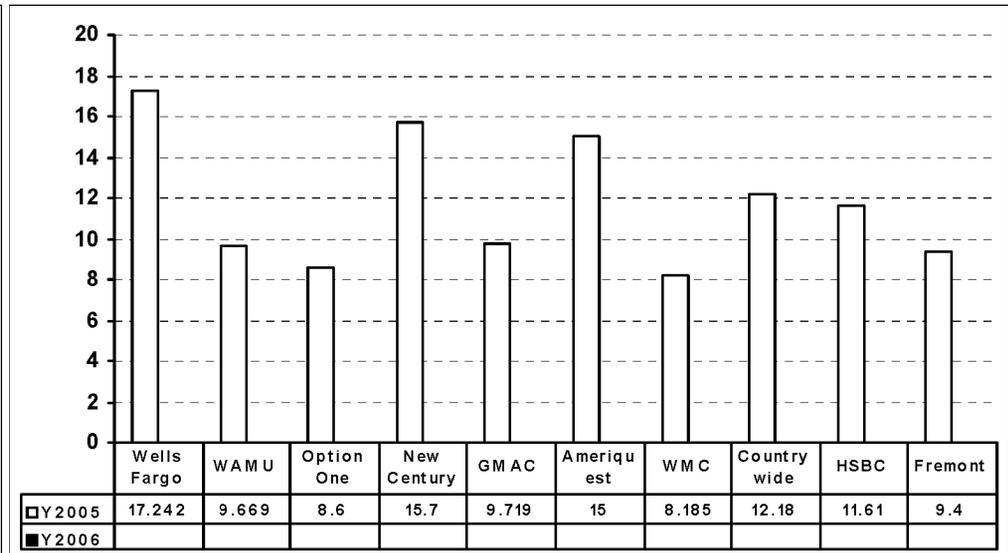
Industry Subprime Originations - Q2



Industry Subprime Originations - Q3

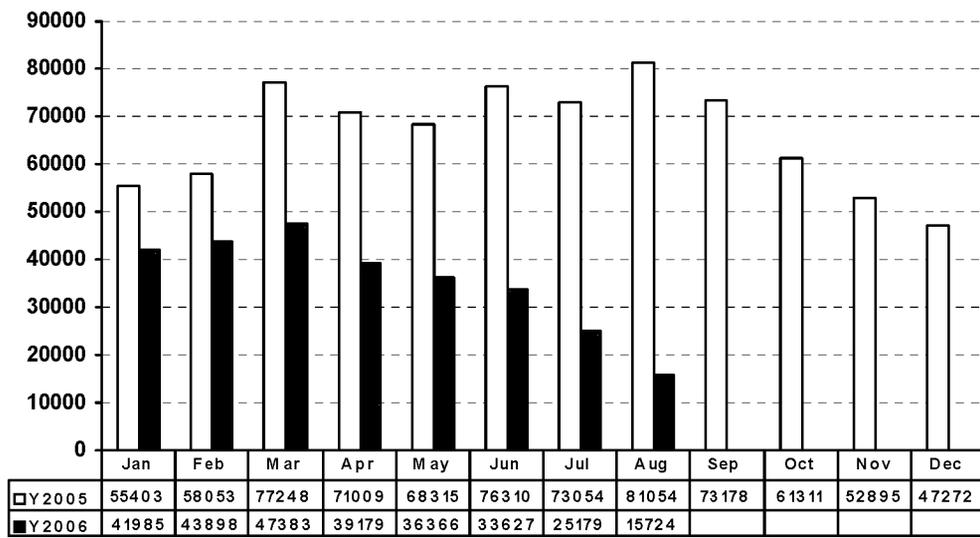


Industry Subprime Originations - Q4

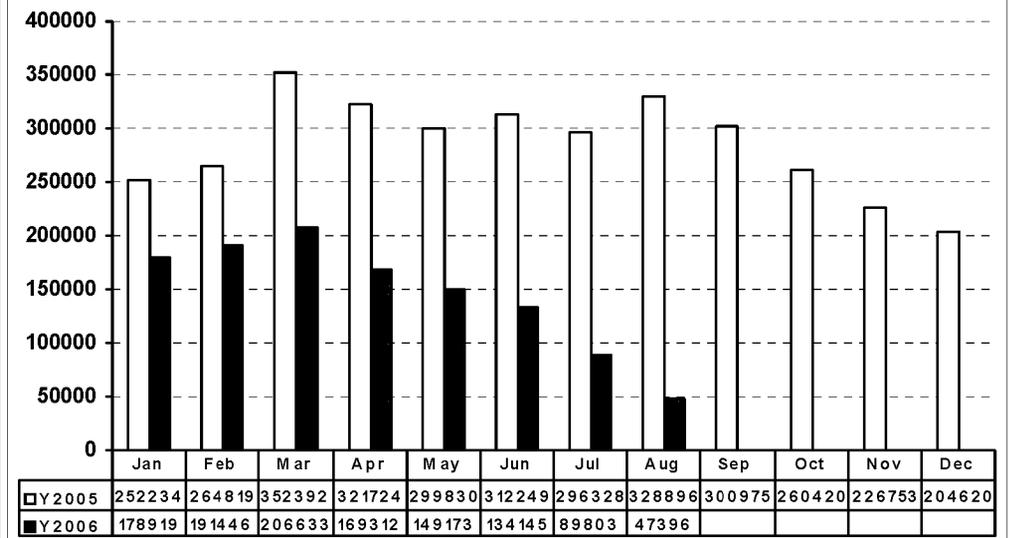


Industry Trends

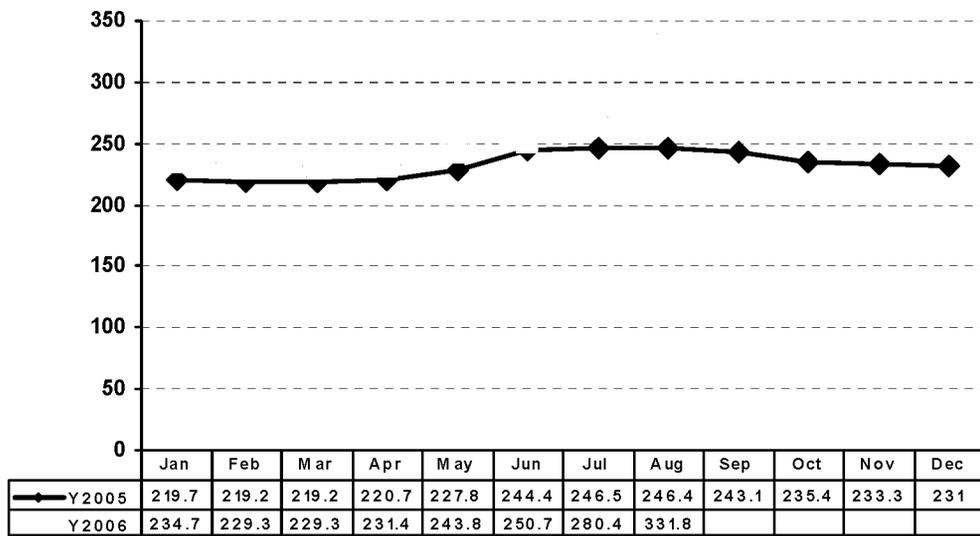
Industry - Origination Balances



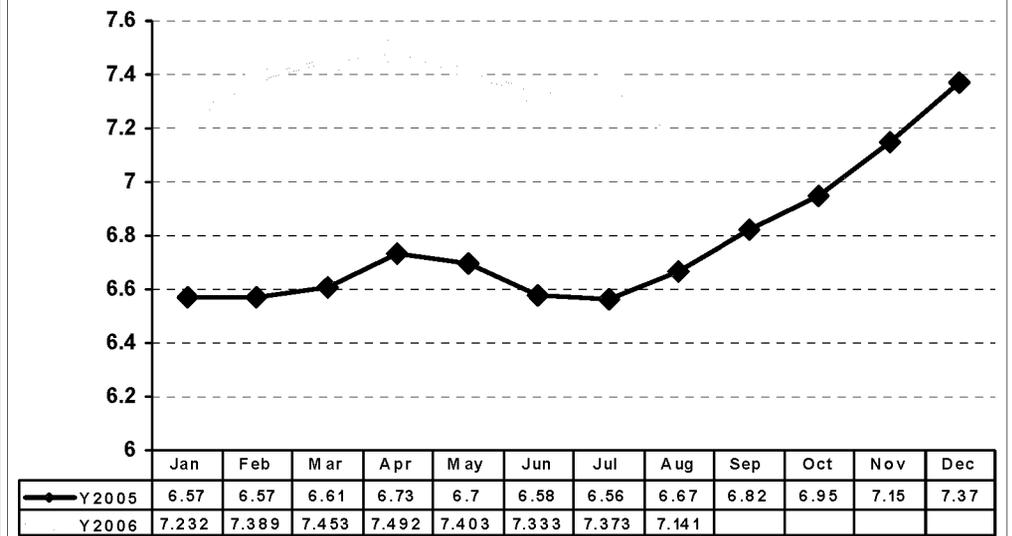
Industry - Origination Units



Industry - Origination Average Balance



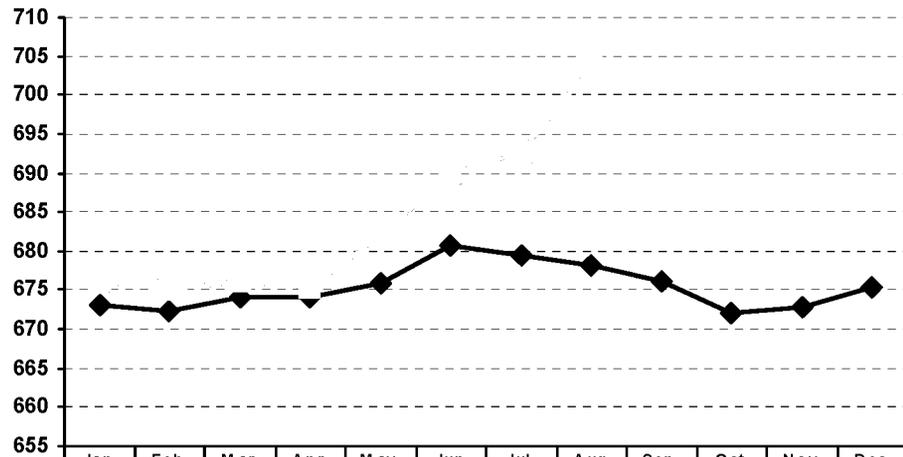
Industry - Origination Average Rate



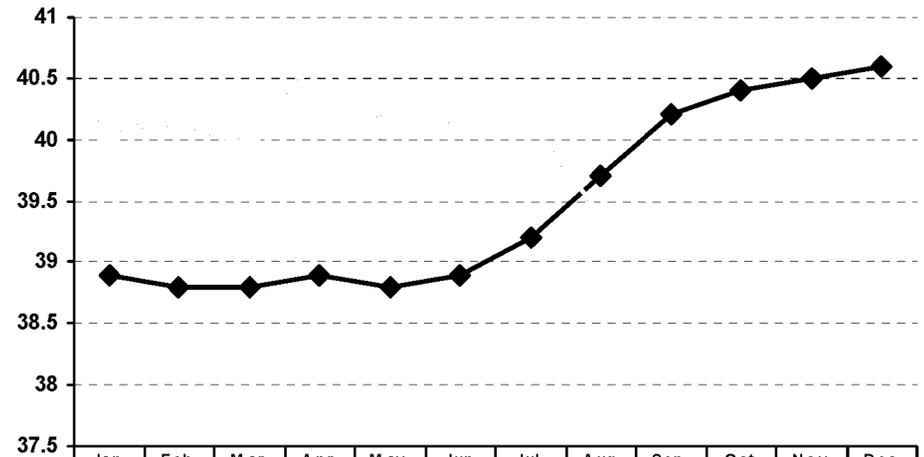
Loan Performance data with loan sizes <= \$2million

Industry Trends

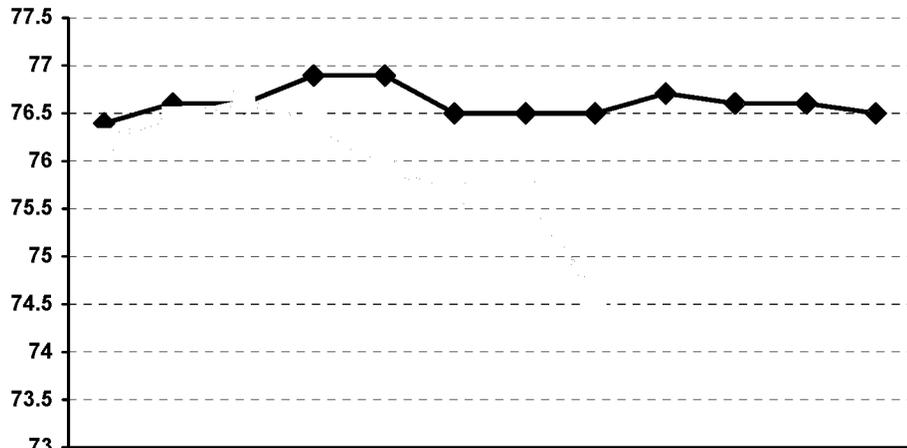
Industry - Origination FICO



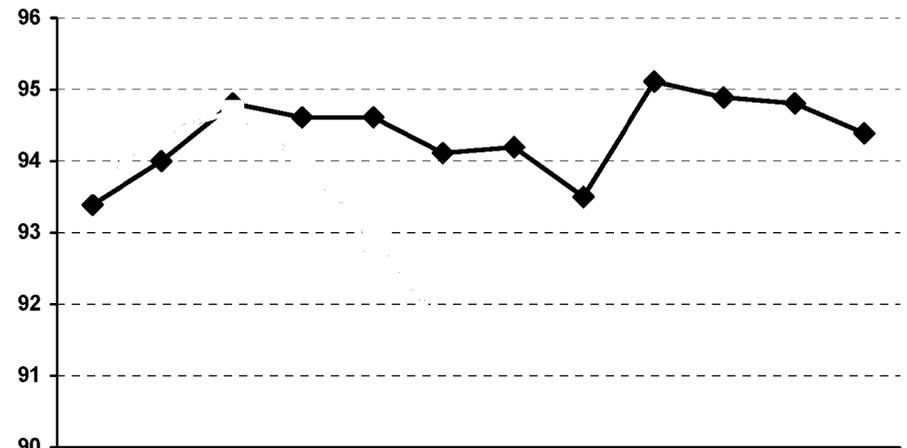
Industry - Origination DTI



Industry - Origination LTV

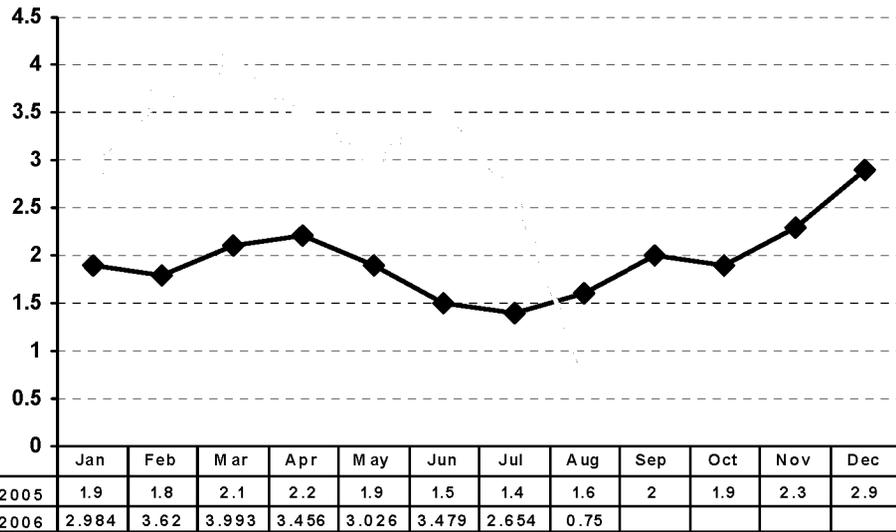


Industry - Origination CLTV

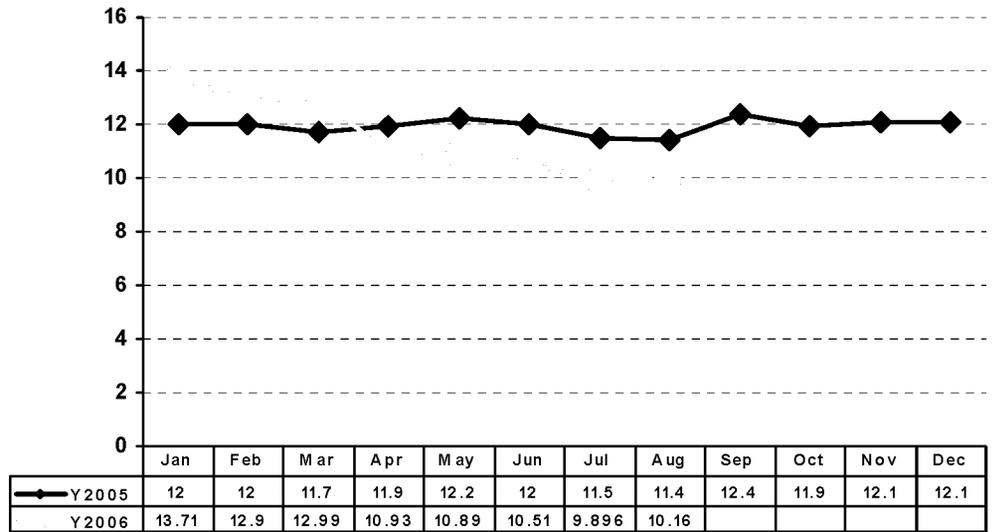


Loan Performance data with loan sizes <= \$2million

Industry - % 2nds



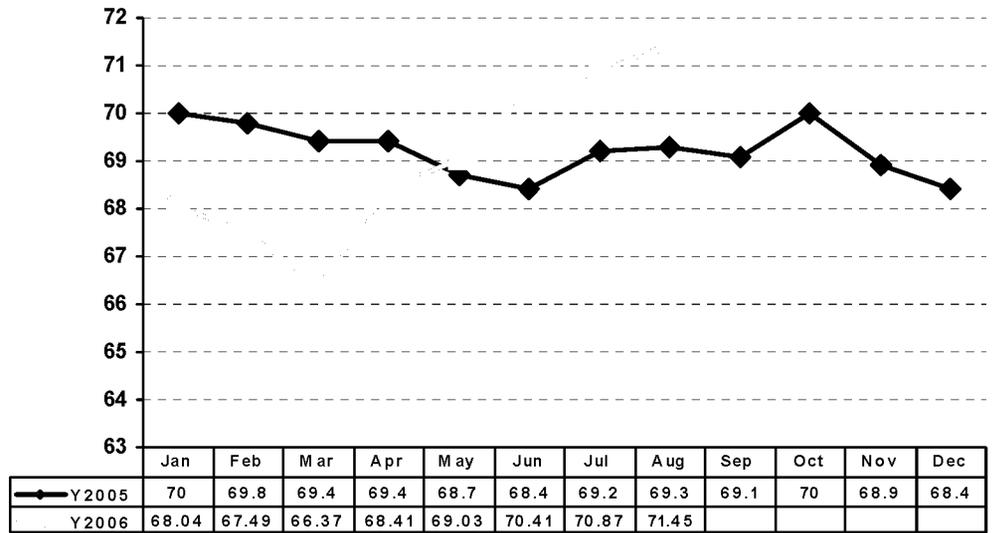
Industry - % Investor Properties



Industry - % Purchases



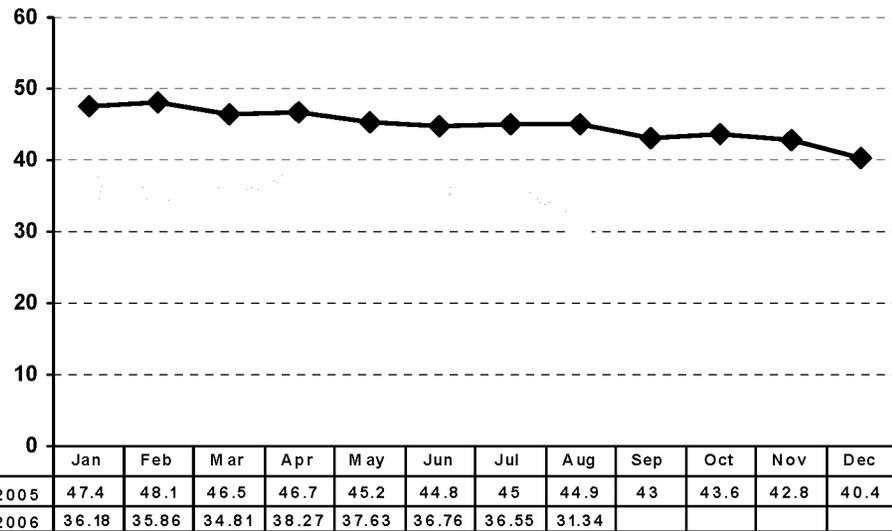
Industry - % Single Family



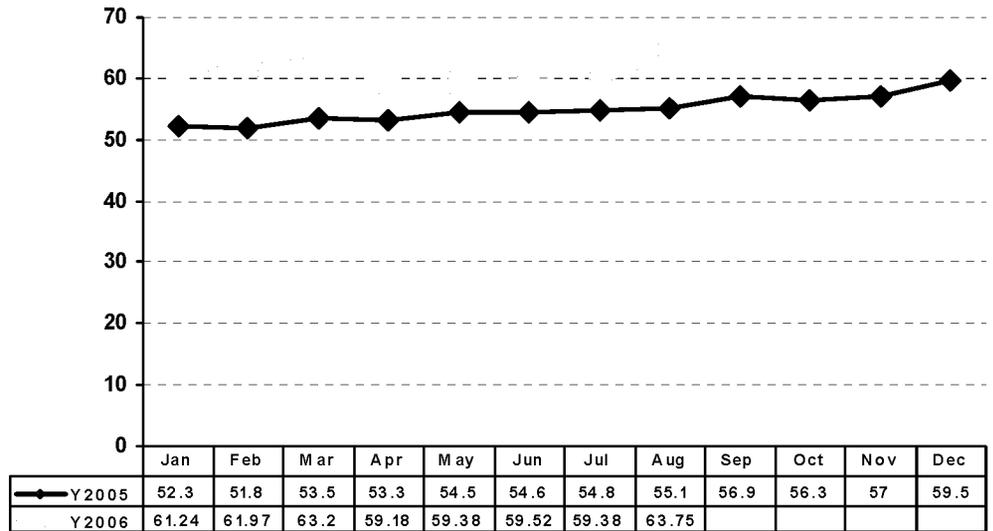
Loan Performance data with loan sizes <= \$2million

Industry Trends

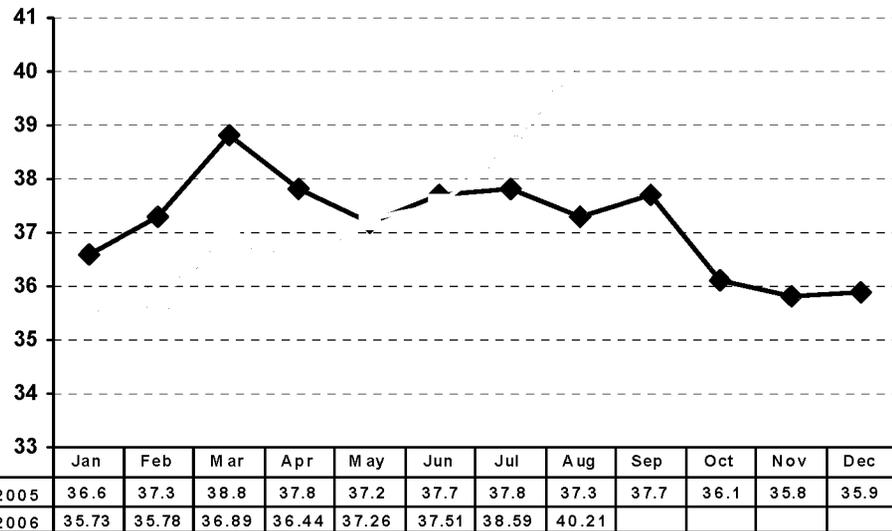
Industry - % Full Doc



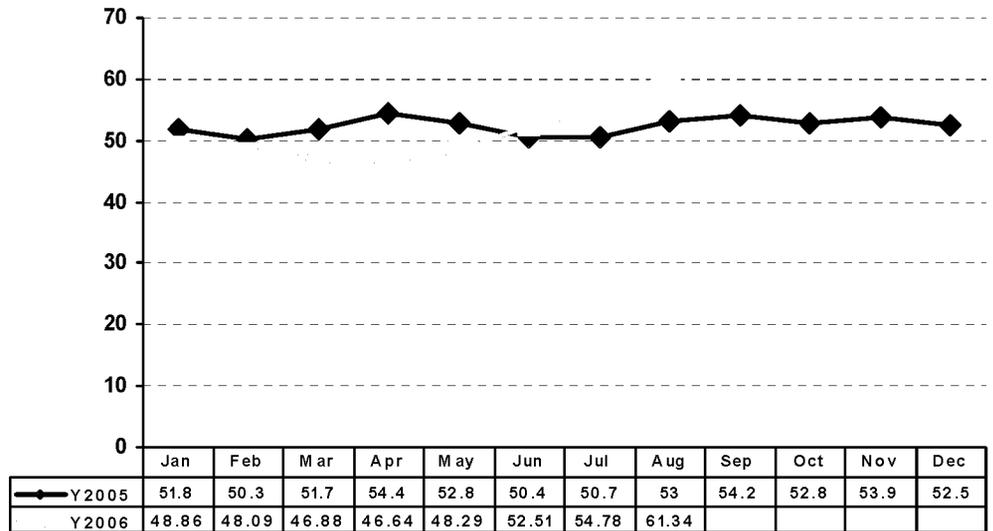
Industry - % Stated/No Doc



Industry - % CA

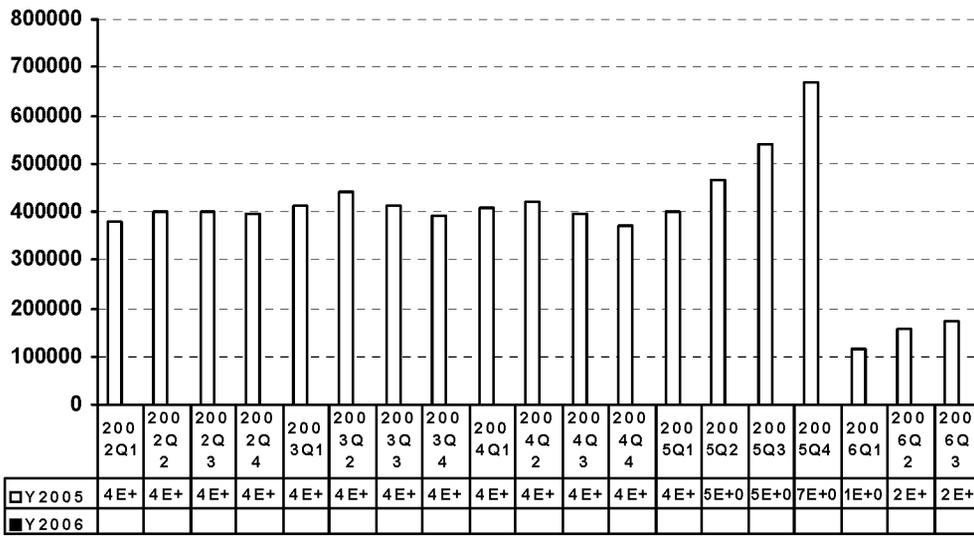


Industry - % with Prepayment Penalty

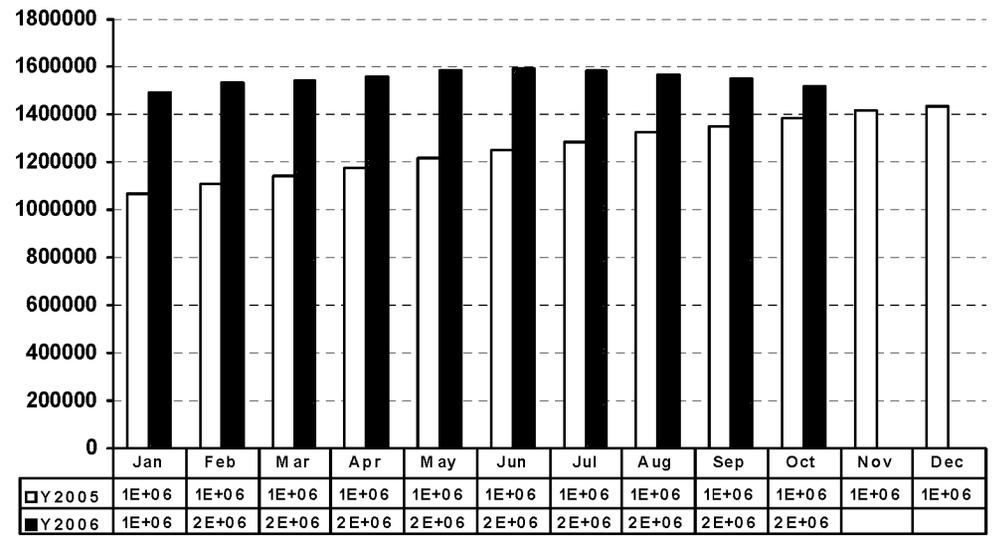


Loan Performance data with loan sizes <= \$2million

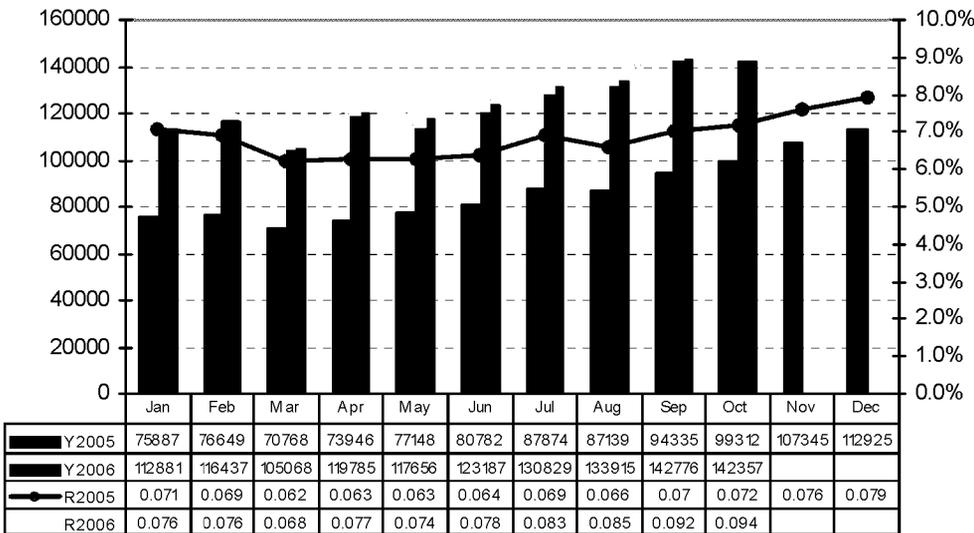
New Bankruptcy Filings



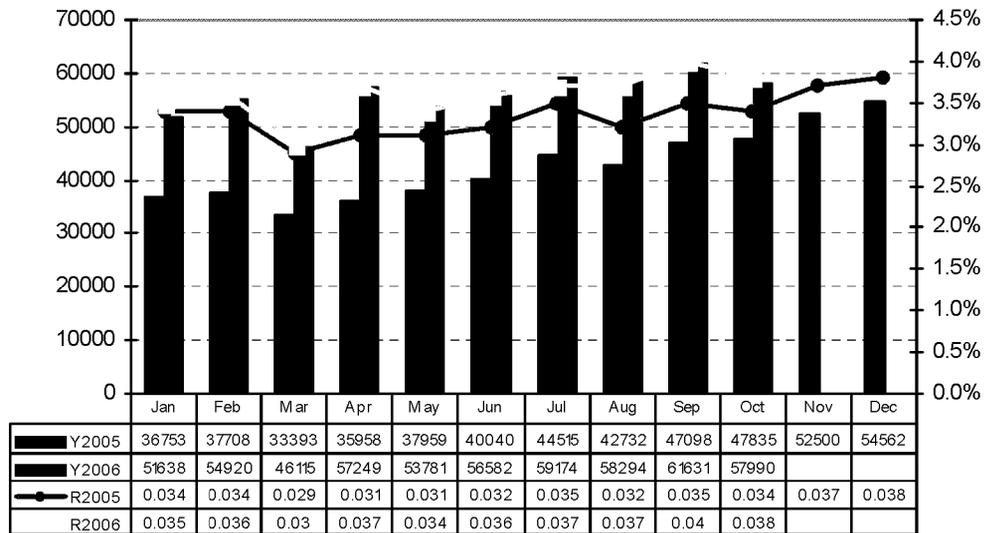
Industry - Servicing Balances



Industry - Delinquency (30+)

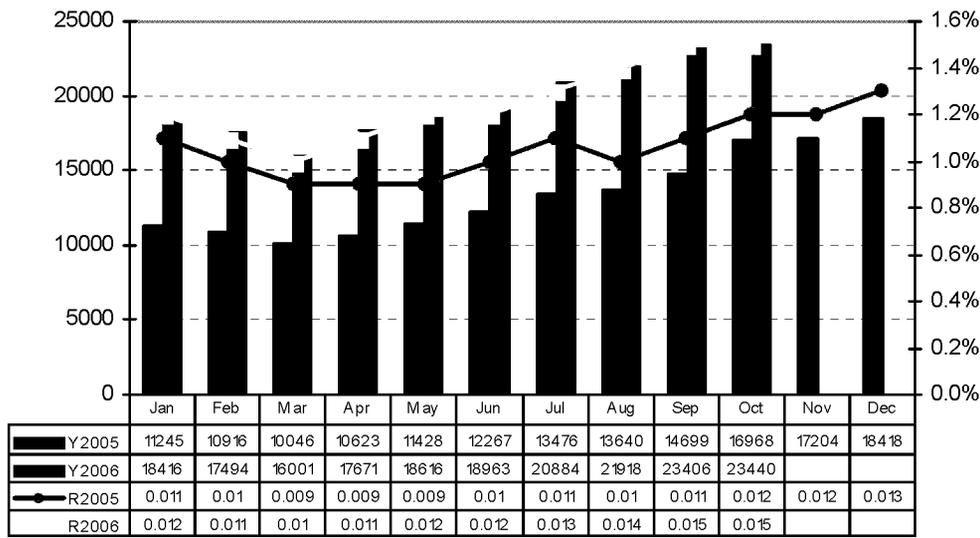


Industry - 30s

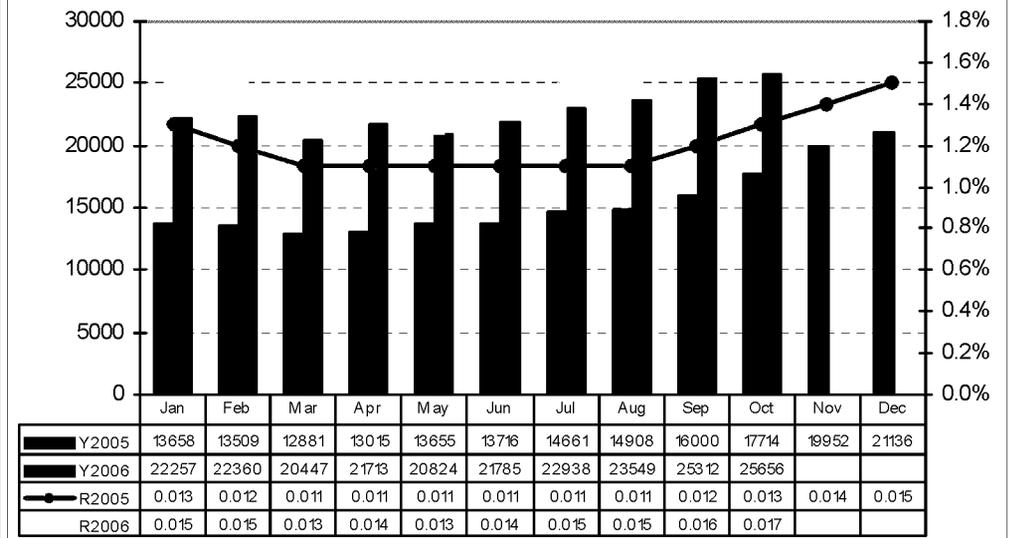


Industry Trends

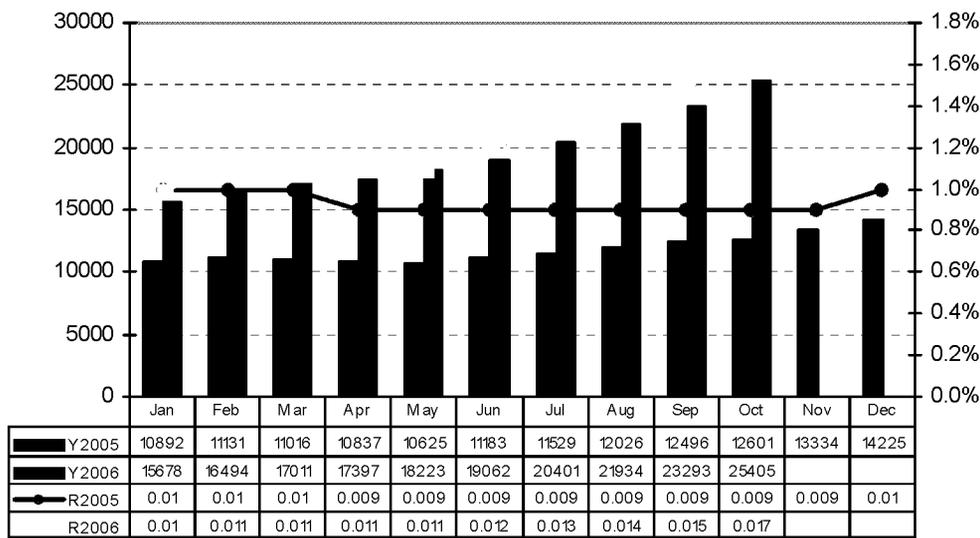
Industry - 60s



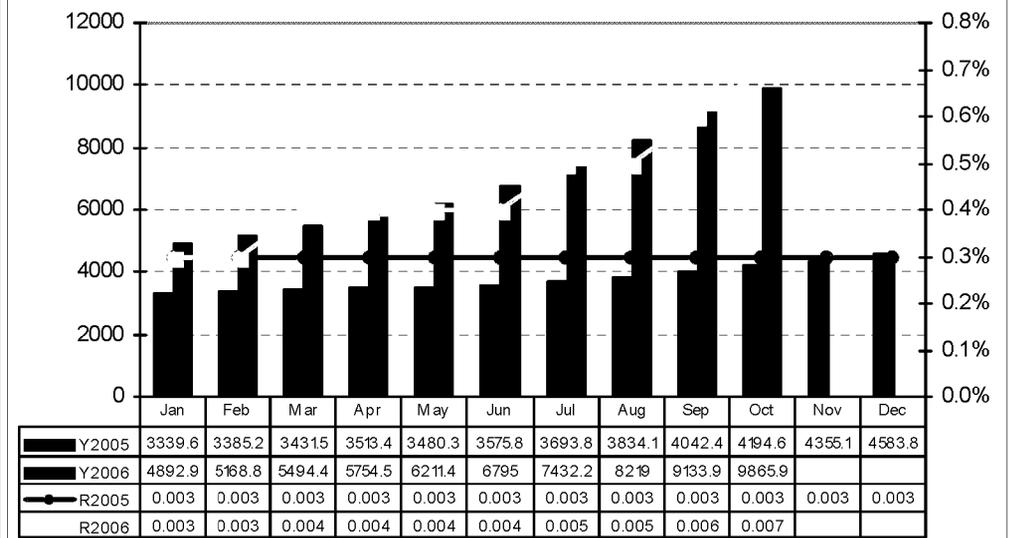
Industry - 90+



Industry - FCs



Industry - REOs



60+ Default Analysis

LEHMAN BROTHERS

FOIA CONFIDENTIAL TREATMENT REQUESTED BY
LEHMAN BROTHERS HOLDINGS INC.

LBEX-DOCID 251077

60+ Default Analysis

80/20s - Purchase, Full Doc, FICO < 659



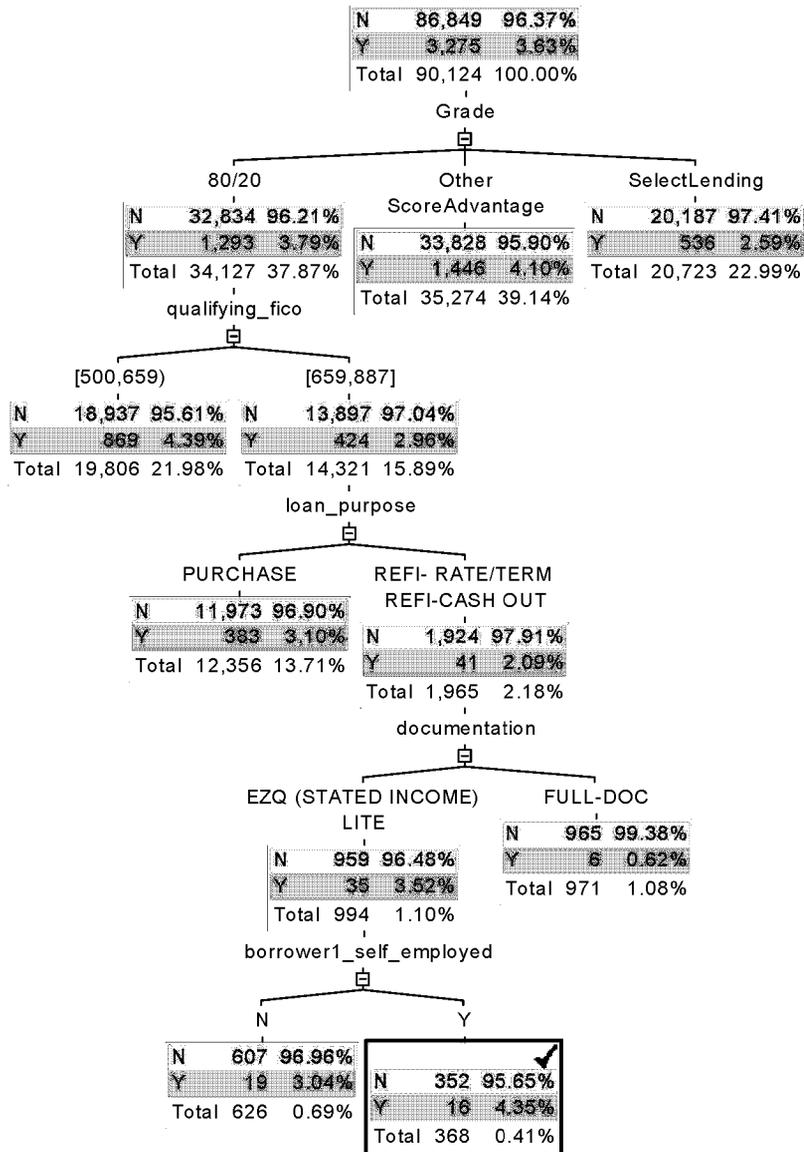
60+ Default Analysis

80/20s - Purchase, FICO >= 659



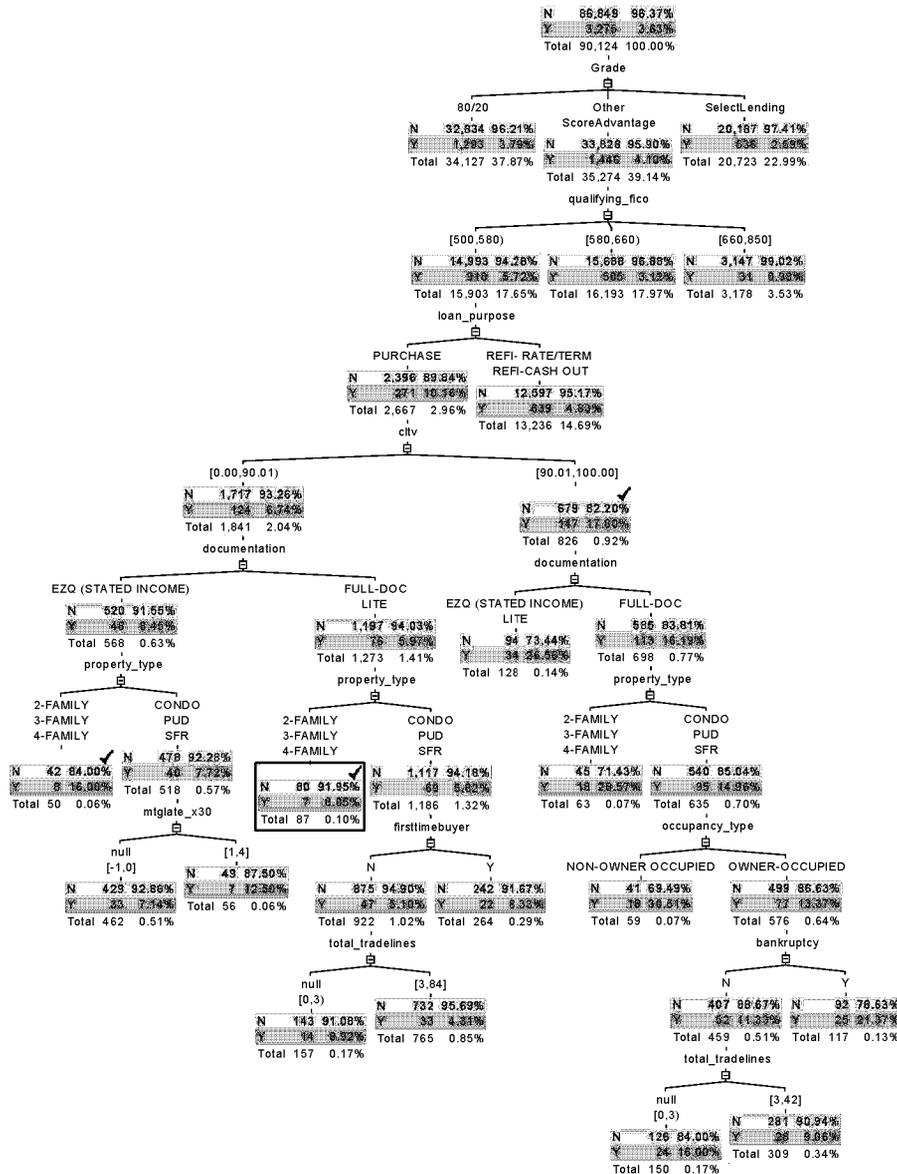
60+ Default Analysis

80/20s - Refis, FICO >=659



60+ Default Analysis

Score Advantage, Purchase, Low FICO



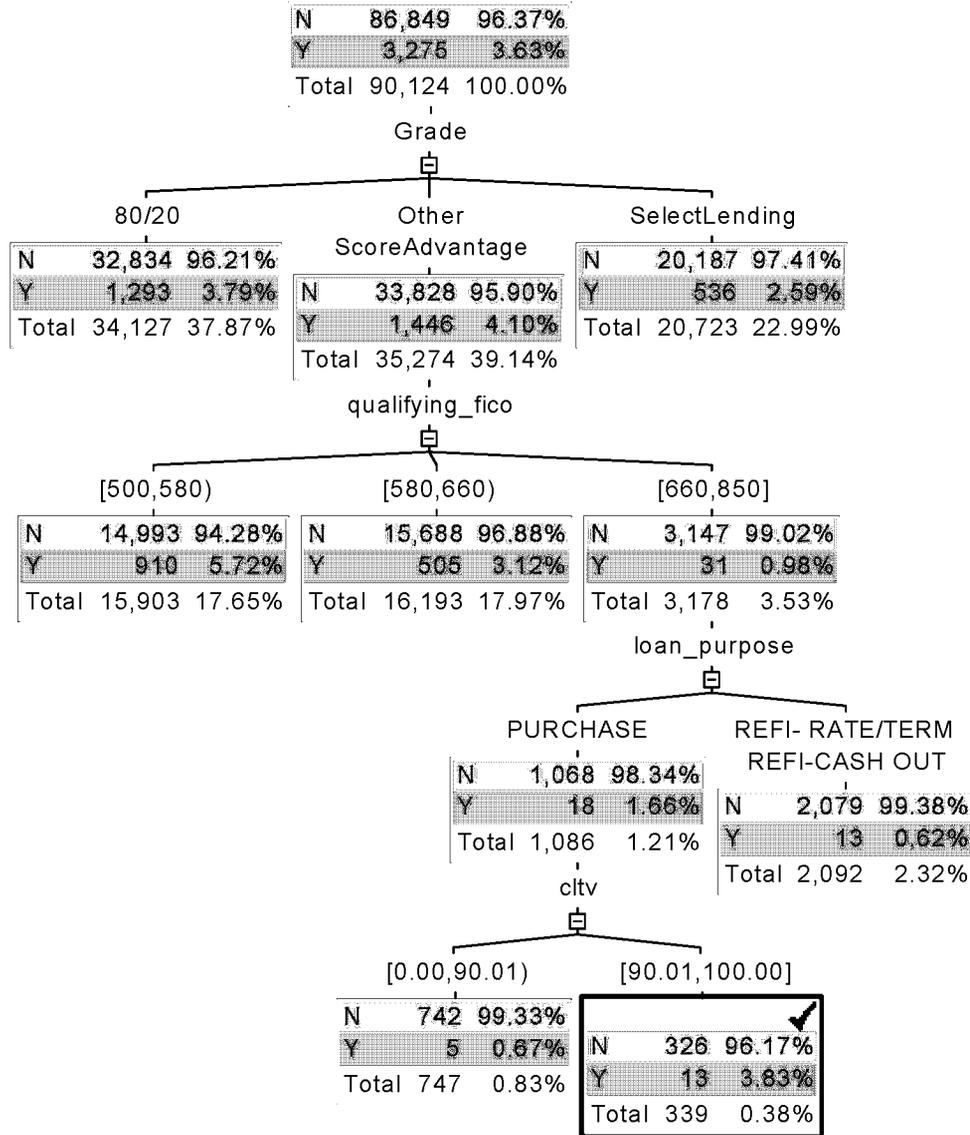
60+ Default Analysis

Score Advantage, Purchase, Medium FICO



60+ Default Analysis

Score Advantage, Purchase, High FICO



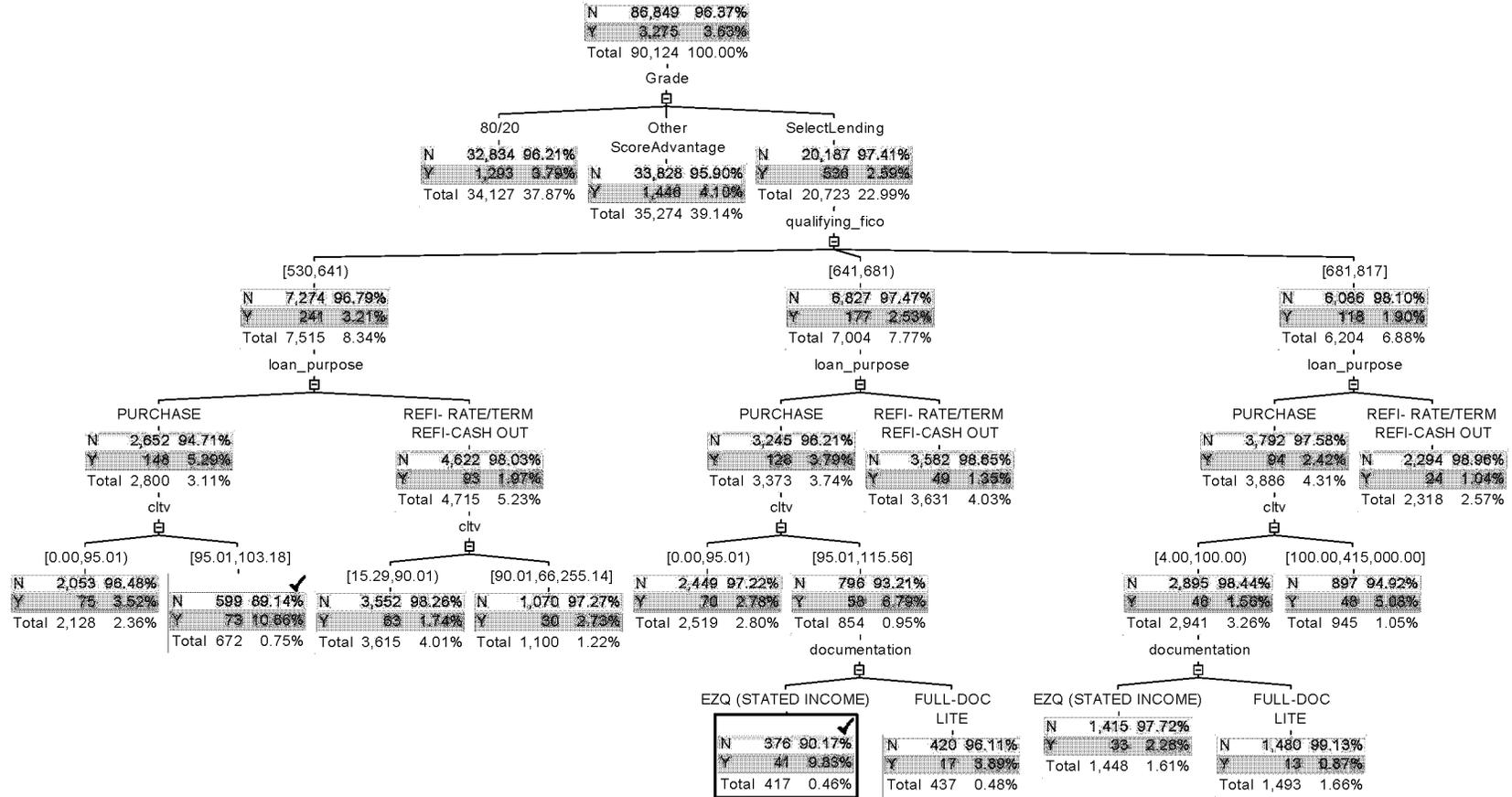
60+ Default Analysis

Score Advantage, Refis, Low FICO



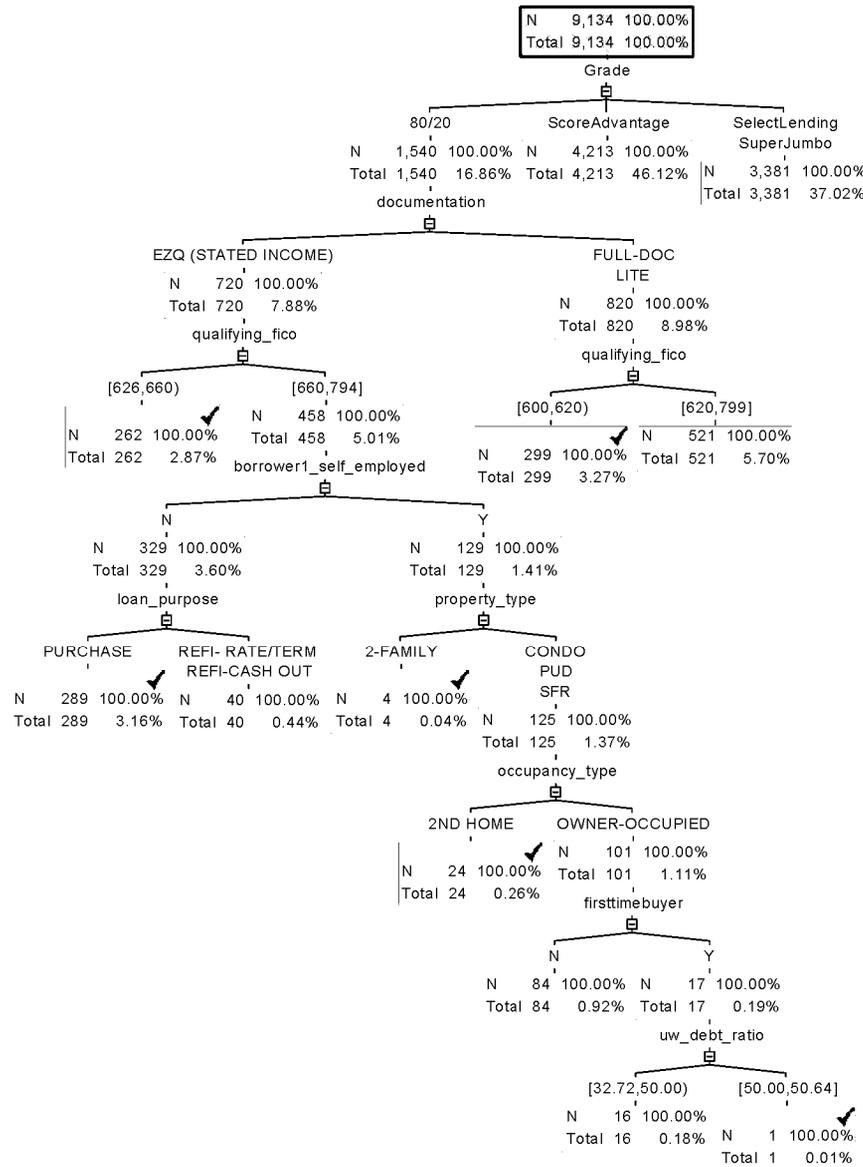
Score Advantage, Refis, Medium FICO





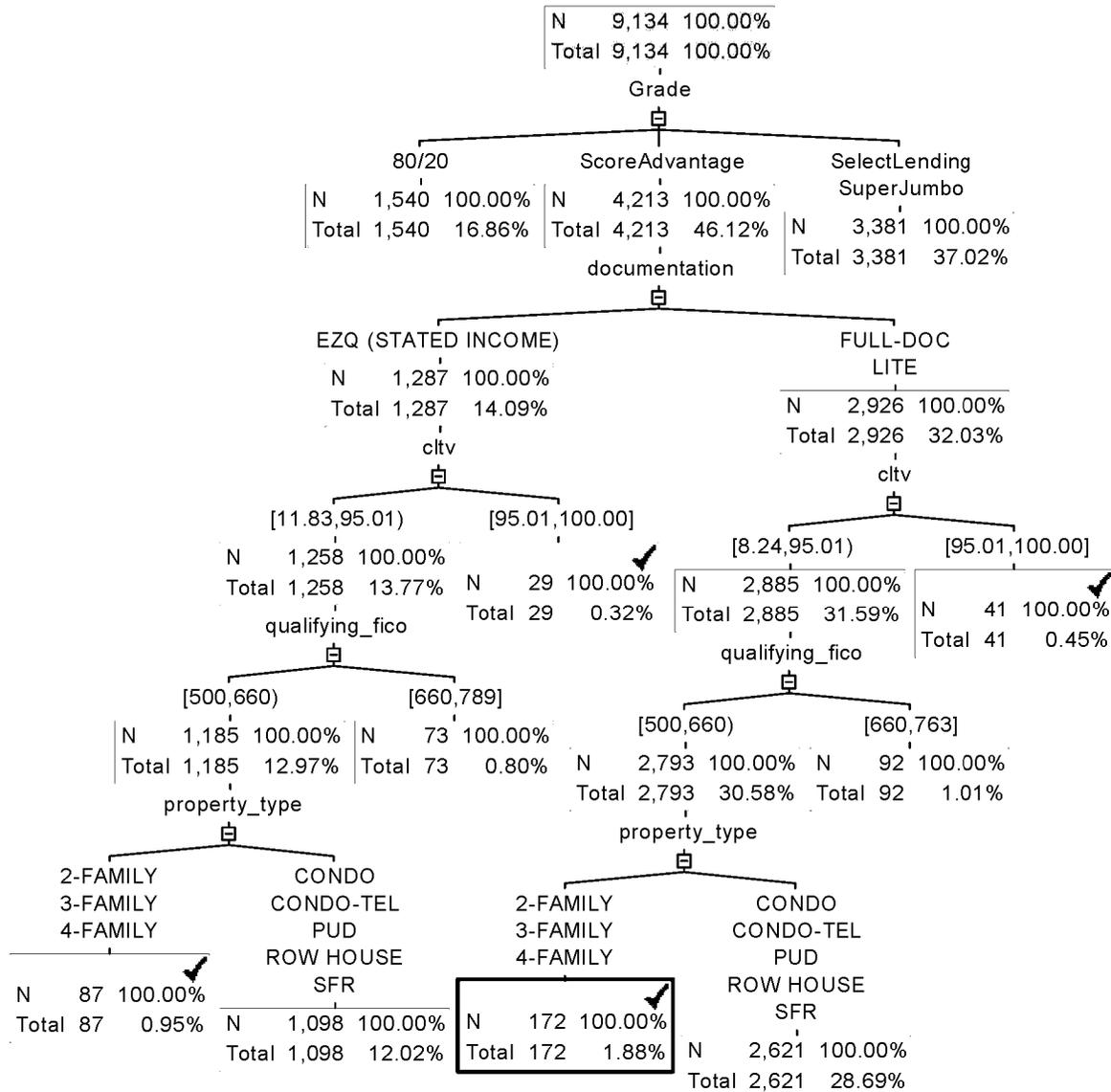
Production of last 2 months - Units

80-20s



Production of last 2 months - Units

Score Advantage



Production of last 2 months - Units

Select Lending

