

*Confidential Presentation to:*

# U.S. Securities and Exchange Commission

## Aurora Loan Services

*February 6-7, 2007*

**LEHMAN BROTHERS**

# Welcome and Overview

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## Tom Wind

- ◆ Overview of Mortgage Banking Environment
  - Current cycle
  - Impact of higher rates and declining home prices
  - Specific impact on Alt-A and Sub-prime lenders
  - Opportunities in the current environment
  
- ◆ Current State of MCD Business
  - Management team
  - Lehman Brother's vertically integrated model
  - Production channels
    - Interagency guidance
  - Loan Administration
  
- ◆ MCD Strategic Vision and Keys to Success
  - Capturing more of core Alt-A business, Jumbo, Conforming, etc.
  - Competing with national originators
  - Technology and cost competitiveness
  - Sub-prime market opportunities

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# Aurora Loan Services History

**August 1997**

- ◆ Aurora Loan Services was established as an affiliate of Lehman Brothers through the asset purchase of certain assets of Harbourton Mortgage Corp. At inception there was a \$1.8 billion servicing portfolio and 125 employees

**October 1997**

- ◆ Aurora began centralized retail originations

**April 1998**

- ◆ Aurora launched the correspondent program

**January 1999**

- ◆ Aurora commenced master servicing

**October 1999**

- ◆ Aurora opened the first broker Regional Operations Center

**March 2004**

- ◆ Aurora acquired assets of SIB Mortgage's wholesale channels

**December 2006**

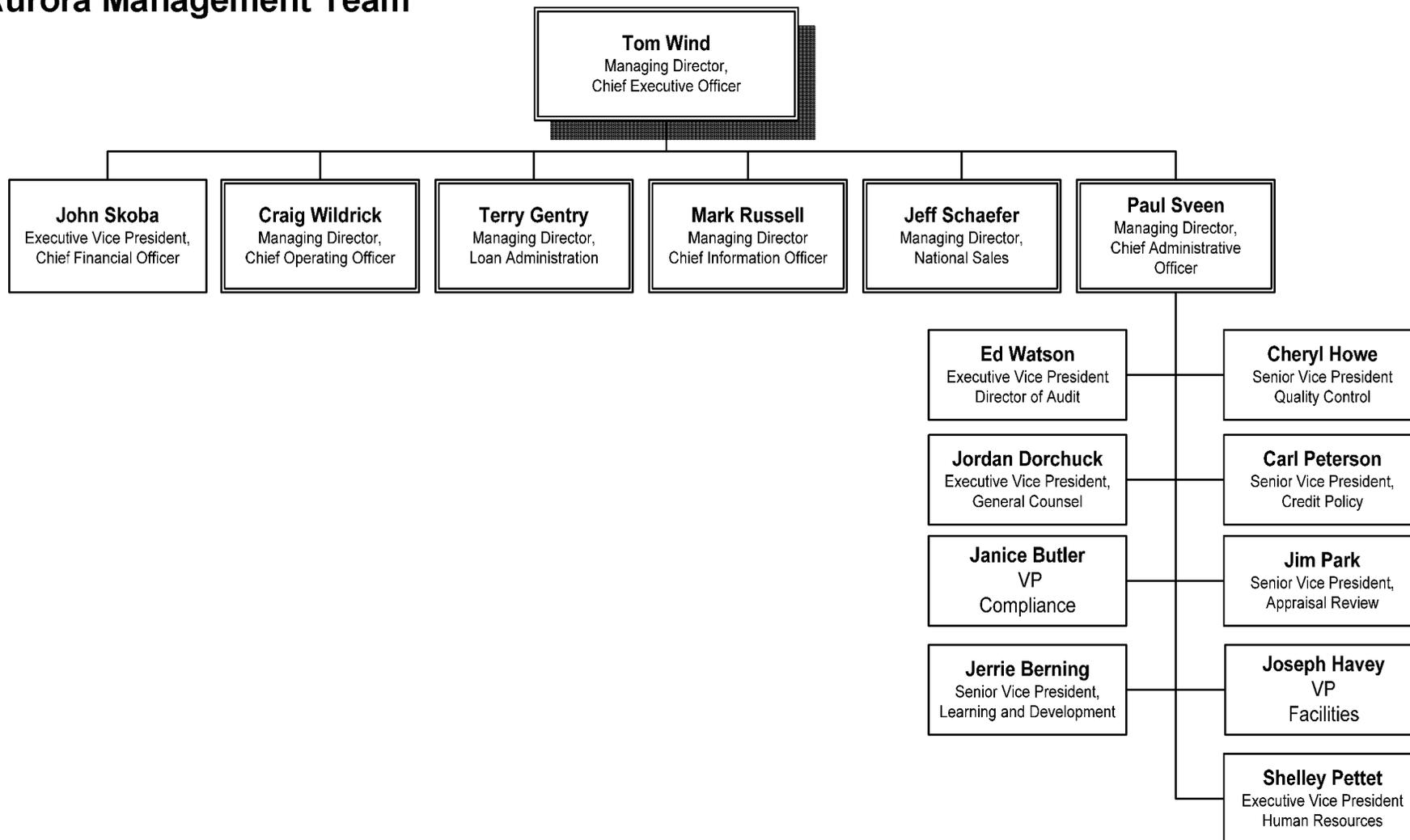
- ◆ In December, Aurora originated \$3.05 billion. As of year end 2006, Aurora originated over \$36.8 billion, had a \$92.98 billion servicing portfolio, a \$192 billion master servicing portfolio and 2,459 employees

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# Overview

## Aurora Management Team



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**Risk Management Activities**  
**Paul Sveen / Ed Watson**

# Risk Management Activities



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**Internal Audit**  
**Ed Watson**

## Mission

- ◆ The mission of the Aurora Audit Department is to independently confirm and help ensure a strong internal control environment:
  - That is commensurate with industry best practices
  - That is supportive of the evolving regulatory framework
  - By identifying control improvements and efficiency opportunities
  - By working with management to mitigate risk and effect change
  
- ◆ Aurora Audit is responsible for providing the Lehman Bank Audit Committee and senior management with an independent assessment of Aurora's internal control environment. This is accomplished by performing risk driven cyclical and mandated audit reviews and through involvement in company initiatives.

## Aurora Audit Structure and Overview

- ◆ There is a team of Auditors in Colorado who provide audit coverage of Aurora Loan Services.
  
- ◆ The mandate of the Internal Audit group is to review and evaluate the adequacy of the Aurora's operating policies and procedures, and the effectiveness of internal controls in accordance with established policies and procedures.
  - This is accomplished by performing audit reviews and by participating in new initiative reviews.
  
- ◆ Aurora's Director of Audit reports to the LBB General Auditor, who has an independent reporting line to the LBB Audit Committee, and a management reporting line to the LBHI Corporate Audit Director.

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## Audit Approach

- ◆ Audit reviews are managed by professionals who have significant experience in the mortgage origination and servicing businesses, are conducted in accordance with LB Corporate Audit department policies and procedures, and are consistent with professional auditing standards.
  
- ◆ In planning and performing audits of the internal control environment the following factors are considered:
  - Overall business, market and regulatory environment
  - The product or process complexity and operating risk
  - The nature and clarity of current control processes
  - The extent of automation and technology controls
  - The availability, monitoring and management review of key information
  
- ◆ In general, audits of individual areas are governed by the following approach:
  - Planning (includes risk based scoping)
  - Control identification and evaluation
  - Testing
  - Reporting
  - Follow-up

## Audit Management Accountabilities

- Conduct an annual risk assessment of the auditable areas that comprise the complete set of Aurora's businesses and controls.
- Develop and execute a cyclical audit review program that reflects the complexities, risks, regulatory and market environment of the Aurora's businesses and controls.
- Coordinate with business unit and support group management throughout the year to understand and incorporate new initiatives and changing risks into Internal Audit review activities.
- Present an annual audit plan for review and approval, and report the status of Internal Audit activities on a regular basis.
- Actively participate in new initiative planning, special projects and investigations. Communicate the nature and status of these activities to Management and the LBB Audit Committee.
- Conduct audit reviews in accordance with professional standards.
- Communicate findings and recommendations to management upon completion of audit work.
- Follow-up on open audit findings and action plans with business management on a regular basis.
- Coordinate closely with external auditors.
- Ensure appropriate staffing levels, skills and organizational development to accomplish objectives.

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# Internal Audit

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## 2007 Audit Plan Recap

- ◆ The scope of coverage for Aurora will include, but is not limited to
  - Production Channels
  - Loan Administration
    - Primary Servicing
    - Master Servicing
  - Financial Controls
  - Quality Control
  - Appraisal Department
  - Contract Administration
  - Document Management
  
- ◆ Division wide coordinated audits will be conducted across the following areas:
  - Credit Policy
  - Privacy Act
  - Patriot Act
  - Disaster Recovery/Business Continuity

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**Broker & Correspondent Approval Process**  
Cheryl Howe

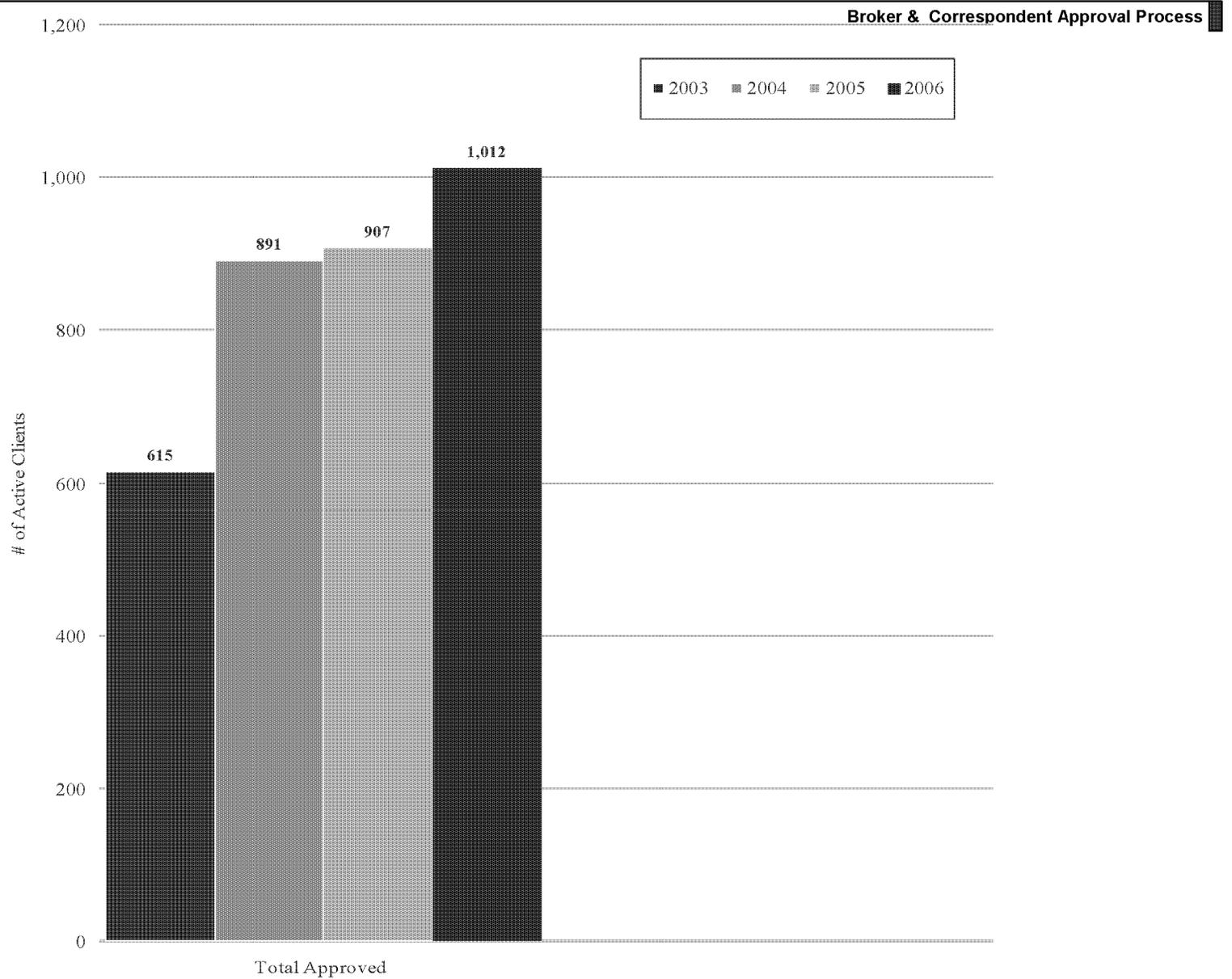
# Client Relations - Purpose

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## Functions Performed Within Client Relations:

- ◆ Qualify new Broker and Correspondent clients.
- ◆ Re-certify Broker and Correspondent Clients annually.
- ◆ Comprehensive Client financial analysis for new Correspondent Client's and Delegated Underwriting requests.
- ◆ Provide Client support to Sales and Operations.
- ◆ AE Training regarding qualifying new clients to do business with the Aurora/Lehman Brothers.
- ◆ Facilitating Client Approval Committee, including minutes and required follow-up.

# Active Clients – Correspondent Channel



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# Stratification of Correspondent Client's Net Worth

Net Worth	% of Correspondents in this category
<\$500k	8.10%
\$500k to \$1 Million	16.30%
\$1 Million to \$2 Million	24.60%
\$2 Million to \$5 Million	17.98%
\$5 Million to \$10 Million	7.11%
\$10 Million to \$50 Million	11.17%
\$50 Million to \$100 Million	3.26%
>\$100 Million	8.00%

Data above is as of December 31 2006.

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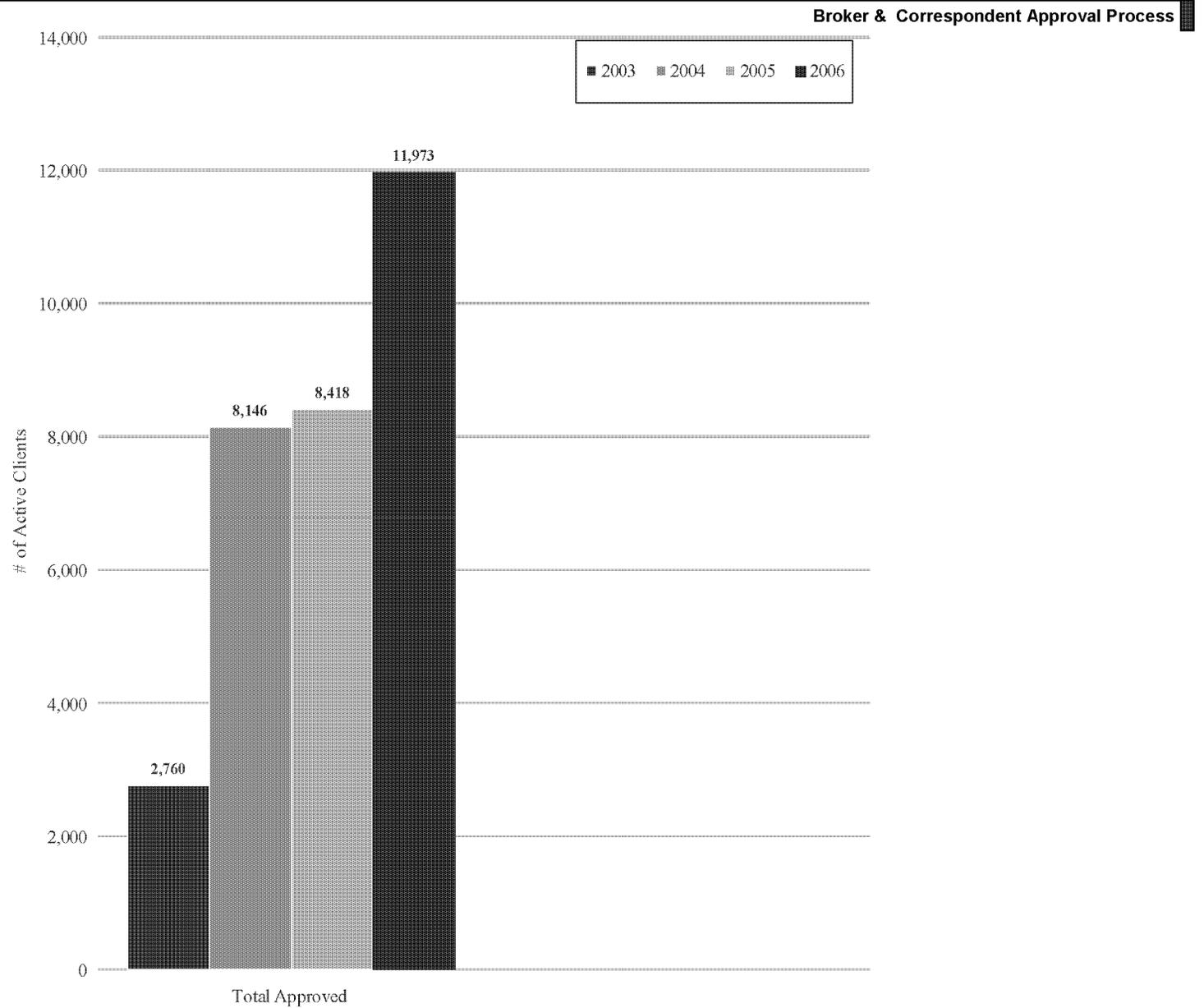
# Client Relations - Terminations

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## Termination Summary – Correspondent Clients

- ◆ 247 Correspondents were terminated with or without cause, or denied in fiscal 2006 (through November 30, 2006)
  
- ◆ The top reasons for the termination or denial:
  - Submitting an incomplete application.
  - Failing to provide adequate documentation to complete their 2006 annual recertification.
  - Misrepresentation and/or fraud (approximately 10%).
  - Did not meet the minimum eligibility guidelines for approval.

# Active Clients – Wholesale Channel



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# Client Relations - Terminations

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## Termination Summary – Wholesale Clients

- ◆ 2,009 Brokers were terminated with or without cause, or denied in fiscal 2006 (through November 30, 2006).
  
- ◆ The top reasons for these termination or denial:
  - Failure to provide adequate documentation to complete their annual recertification.
  - Submitting an incomplete application
  - Not meeting Aurora’s basic eligibility criteria.
  - Loan misrepresentation and fraud (approximately 2.5% of terminations).

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**Credit Policy**  
**Carl Peterson**

## Credit Policy & Appraisal Review Departments

- ◆ Develop and Implement Credit Policy
- ◆ Appraisal Review Department
- ◆ Automated Decisioning Initiatives
- ◆ Delegated Underwriting Program
- ◆ Client Quality Monitoring
- ◆ Training and Support
- ◆ Manage Exception Request Process
- ◆ Escalation Policies

## Primary Initiatives

- ◆ Automated underwriting
  - Product Finder introduced Q3 2005
  - Full Evaluation Phase 1 scheduled for Q2 2007
- ◆ Expand training and monitoring resources and expertise
- ◆ Partner with Lehman Brothers Research to develop analytical resources to enhance program product property and source performance monitoring.

## Existing Property Related Policies For Underwriters

- ◆ Scrutinize selected appraisals through the Review Appraisal Department
- ◆ Confirm that appraisers are not on internal Exclusionary List
- ◆ Validate each appraiser license (broker)

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# Product Management

## Product Lifecycle

- ◆ Research
  - Structuring & Pricing
  - Competitive Analysis
  - Validate Exit Strategy
  - Business Decision Request
- ◆ Review & Approval
  - Steering Committee Approval
  - Risk Committee Approval
  - Internal Policy and Process Flow Revisions
  - Final Sign-Off
- ◆ Launch
  - Marketing Material Development
  - Product Roll-Out
- ◆ Continuous Risk Assessment at the Product Level
- ◆ Bulk Acquisitions
- ◆ Securitization / Exit
  - Pricing / Modeling
  - Mortgage Insurance Structures
  - Issuer Responsibilities
    - Security Performance
    - Consistency of Presence

## Daily Activities

- ◆ Pipeline Management
  - Daily Compilation and Distribution (Aurora)
  - Hedging (Trading Desk)
- ◆ Pricing
  - Product Pricing, Spread / Margin is a collaborative process between the Trading Desk and Aurora
  - Spread / Margin Analysis
- ◆ Client Incentive Tracking
  - Master Commitment Activity
  - Structured Transactions
- ◆ System Integration
  - Web Applications (Commitment / Lock Module)
  - LOS (Loan Data Repository)
  - Pricing Engines
  - Secondary Marketing Systems (Hedging / Pipeline Management)
- ◆ Lock Desk
  - Centralized, all Channels – Call Center
  - Web Applications
    - Online Registration / Locks for Correspondents and Brokers (AuroraConnect)

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# Products

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## General Program Comments

- ◆ All Programs involve risk-based pricing-- Pricing includes charges for certain loan characteristics, including loan size, LTV, credit score, occupancy, transaction, property and documentation types.
- ◆ Underwriting review of No Ratio, Stated Doc, and Stated - Stated income transactions include a determination that the income needed to qualify is reasonable for the profession, industry and years of employment.
- ◆ Five year or ten-year Interest-only options and 2 or 3-yr Prepayment Payment Penalty options are offered on certain Programs.
- ◆ Unless otherwise stated, first and second liens are offered in each program. All second liens must be a 'piggyback' – behind a concurrently funding Aurora first lien. Loans must meet both first and second lien criteria.

# Products/Underwriting Guidelines

## Alt-A

- ◆ Offers Agency-eligible credit quality products with expanded criteria, meaning substantially higher loan balances and with reduced documentation options.
- ◆ Targets higher credit quality borrowers.
- ◆ Documentation types accepted are:
  - Full Doc – income, employment and assets are verified. Income documentation is pay stub and two year's W-2 (wage earner) or two year's tax returns (self-employed).
  - Stated Doc (formerly known as Limited Doc) – income is stated, employment and assets are verified
  - No Ratio – income is blank, employment and assets are verified
  - No Doc – income, employment and assets are all not disclosed
- ◆ In general, Full Doc loans require 620 credit scores; the three Reduced Doc loan categories require 660 credit scores.
- ◆ A full range of loan products are accepted: fixed rate loans, 6 month LIBOR ARMS, and Hybrid ARMS (adjustment periods every 6-months or one-year with an initial fixed rate period of 3, 5, 7 or 10 years).

## Mortgage Maker

- ◆ Offers parameters substantially more expansive than Alt-A, providing higher LTV/Loan amount combinations, broader occupancy and number of units allowed relative to Alt-A
- ◆ Targets moderate credit quality borrowers.
- ◆ In addition to the documentation types accepted in the Alt-A program, Stated Income-Stated Asset (SISA) documentation was introduced as another documentation type option.
- ◆ Full Doc loans are accepted with scores of 600, Reduced Doc with 620 credit scores.
- ◆ Currently, fixed rate loans and 2/6, 3/6 and 5/6 Hybrid ARMs are offered.

## Sub-prime

- ◆ Though not offered as standard Aurora-designed program, sub-prime loans are purchased through Aurora's Bulk channel
- ◆ Generally, sub-prime loans are designed for credit-impaired individuals, often with a history of less than prompt housing payment histories.

# Products/Underwriting Guidelines

## Classic

- ◆ This is an extension of the Alt-A programs, marketed to the most rate-sensitive borrowers.
- ◆ Parameters are restricted to eliminate as many features that may have a negative exit strategy pricing impact.
- ◆ Full Doc loans are accepted with minimum credit scores of 680 for owner occupied transactions
- ◆ Stated Doc owner occupied or Full Doc second homes with minimum credit scores of 720 are accepted.
- ◆ Products allowed are fixed rate loans, 5/6 and 5/1 Hybrid LIBOR ARMs, and a 6-month LIBOR ARM with no periodic caps.

## Choice Advantage

- ◆ A 5/6 and 5/1 Negative Amortization Hybrid ARM product with closed-end seconds
- ◆ Program allows for four payment options and potential negative amortization of up to 115%
- ◆ 10 year interest only, then fully amortized over the remaining 20 years
- ◆ Full, Stated Doc, No Ratio, and No Doc options
- ◆ Aurora Piggybacks require a minimum 680 score
- ◆ Guidelines follow Alt-A in most key areas
- ◆ Qualify using an amortizing payment calculated using the higher of the note rate or fully-indexed rate against the maximum potential balance

## Expanded Options

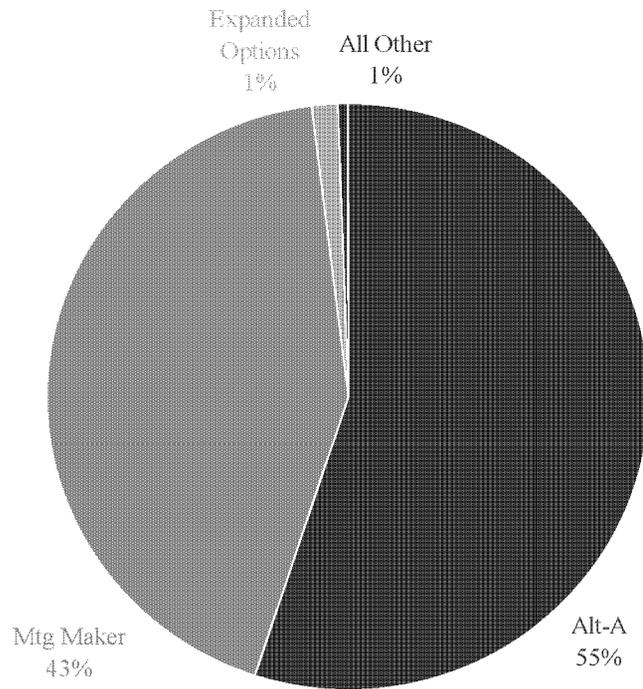
- ◆ Expanded Options was introduced to expand our credit offerings into the 'Alt-B' space, between the Alt-A/Mortgage Maker program on one side, and the sub-prime arena on the other
- ◆ Documentation Types range from Full Doc to No Doc; introduced "Lite Doc"
  - Lite Doc – verifies income for 6 months using bank statements
- ◆ Program features include:
  - variations in the type of asset verification required, depending on LTV, Doc Type and occupancy
  - Reliance on credit score for credit determination (no housing history review)
  - As little as one day since discharge from bankruptcy or foreclosure (but with significantly reduced parameters allowed for most recent discharges).
- ◆ Products offered are fixed rate loans as well as 6-month LIBOR ARMS with initial fixed rate period of 6 months, 1, 2, 3 or 5 years, 30/15 Balloon, and with 40-year amortizations offered on numerous products, including a 40/30 Balloon.

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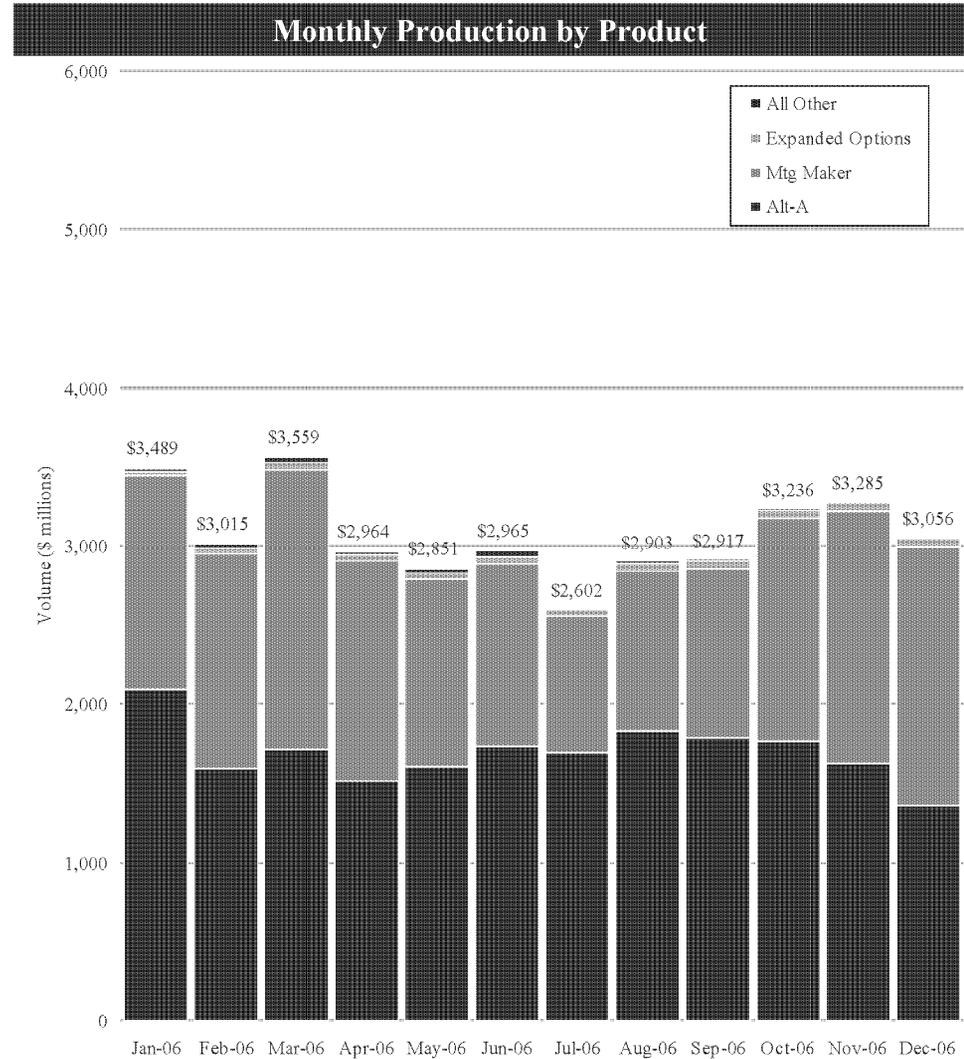
# Aurora Loan Services – CY'06 Volume by Product

Credit Policy

## Loan Production by Product



**CY'06 Total Volume:  
\$36.8 billion**



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# Credit Policy

## Delegated Underwriting Guidelines

Delegated Classification	Net Worth	Maximum Allowable	Min. Required Aurora purchased volume pre- or post- DUA approval	Max. Delegated Volume Exposure for first 12 months after DUA approval
Not eligible for DUA	<\$1.0MM	N/A	N/A	N/A
Tier 4	\$1MM	\$650K w/Credit Review	None	No Limit
Tier 3 Full	\$2MM - <\$5MM	\$650K	30 DUA-eligible loans	\$200 MM
Tier 2 Full	>\$5 -<\$10MM	\$1MM	15 DUA-eligible loans	\$500MM
Tier 1 Full	>\$10MM	\$2MM	0	\$1Billion

- ◆ Delegated Authority will not be offered on the following product types:
  - Foreign Nationals
  - Loans outside of published guidelines without an approved Loan Parameter Exception within the approved delegated limits.

Aurora reserves the right to limit the products, programs and/or parameters of the authority depending upon the level of comfort with any individual Correspondent. Limitations may be placed regardless of financial condition, productive capabilities, delinquency and early pay-off performance, re-purchase demands, or underwriting experience and are at the sole discretion of the Aurora Client Approval Committee. Client Approval Committee may adjust the Maximum Delegated Volume Exposure Limitation, depending on the above criteria.

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**Appraisal Review**  
**Jim Park**

# Appraisal Review

## Targeted Appraisal Reviews

### Criteria

- ◆ Loans  $\geq$  \$950,000
- ◆ Val Verify Scores  $\leq$  100
- ◆ Sale Price/Values  $\geq$  \$1.495 M
- ◆ 3-4 unit properties where the CLTV/HCLTV  $\geq$  79%
- ◆ High Risk Zip Codes
- ◆ Appraisers on the Watch List
- ◆ Underwriter Referrals

## Data Sources

- ◆ Interthinx
  - Val Verify
- ◆ Multiple Listing Services (MLS)
- ◆ First American
  - Real Quest
- ◆ Corelogic
  - Various AVMs
  - History Pro
  - SiteX
- ◆ Various local on-line data sources (County Records)
- ◆ Hansen Quality provides Desk Reviews as overflow for staff

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**Quality Control & Special Investigations**  
**Cheryl Howe**

# Quality Control - Purpose

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**To evaluate, document, and monitor the quality of mortgage loan originations and loan servicing processes and procedures.**

- ◆ Monitor Pre-Funding Fraud Detection
- ◆ Branch Office Reviews
- ◆ Post closing target and random monthly reviews
- ◆ First Payment/Early Payment Default
- ◆ Loan Servicing
- ◆ Special Investigations

# Quality Control

## Pre-Funding Fraud Detection

- ◆ Selection – Current
  - New Clients
  - Restricted Status Clients
  - Selected products, geographic locations, LTVs, and loan amounts
- ◆ Selection – Future
  - Reviewing the appropriate selection process and tracking/trending review
- ◆ Review
  - Currently leverage Interthinx and a verbal verification of employment
  - Fraud detection includes:
    - Value
    - Employer Verification
    - Employment Verification
    - Chain of Title
    - Credit Report
    - Social Security
    - Exclusionary Lists
- ◆ Process/Results

## Branch Office Reviews

### On site QC staff in each Corporate/Headquarters location

- ◆ Review cancelled and denied loan files
- ◆ Monitor Pre-funding Fraud Detection procedures, UW decisions and results
- ◆ Review new underwriters
- ◆ Monitor adherence to operational process and procedures
- ◆ Assist in system testing
- ◆ Report, recommend changes and monitor implementation
- ◆ NPI/Safeguarding Audits

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# Quality Control

## Post Closing Review

### Performed In-House

- ◆ Selection
  - Statistical sampling – 98% plus or minus 2% by Business Unit, Product and Delegated Underwriting
- ◆ Review
  - Compliance
  - Underwriting
  - Property Value
  - Closing and Legal Documents
  - Fraud Detect
  - Re-verification:
    - Credit Report
    - Employment/Income
    - Assets
    - Altered documents

- ◆ Process/Reporting
  - Misrepresentation – recommend indemnify, repurchase
  - Exceptions/Issues to appropriate management for responses
  - Trend Reports
  - Management/Executive Summary

## Early Payment Default/First Payment Default

- ◆ Selection
  - Loans which have two 30-day delinquencies in first six payments
  - First payment defaults

- ◆ Review
  - Reason for default
  - Fraud detections includes:
    - Property value
    - Employer verification
    - Employment verification
    - Chain of Title
    - Credit Report
    - Social Security
- ◆ Process/Reporting
  - Tracking and Trending by client/location/underwriter etc.

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# Quality Control

## Loan Servicing Review

- ◆ Selection
  - Statistical sample that provides 95% confidence level with 2% precision
  - Transfers of servicing based on 95% confidence level with 5% precision
  - Monthly, Quarterly, or Annual Reviews
  - Periodic review of compliance
- ◆ Review
  - Compliance with agency/investor/corporate requirements
  - Identify inadequacies, errors, or abuses
  - Explore scope of review if necessary
- ◆ Process/Reporting
  - Report discrepancies, problems, and trends
  - Recommendations made
  - Response from manager of functional area
  - Corrective action taken if required

## Special Investigations

- ◆ Selection
  - Brokers
  - Correspondents
  - Appraisers
  - Staff – AE, UW, etc.
  - TPOs
  - Settlement Agents
  - Borrowers
- ◆ Based on
  - EPD/FPD
  - Post-funding
  - Pre-funding
  - UW Referrals
  - CC Requests
  - Confidential information (Outsourced & In-house)
- ◆ Review
  - Collateral
  - Employer
  - Employment
  - Borrower
  - Title Chain
  - Assets
  - Credit Report
  - HUD-1
  - Relationships
- ◆ Results
  - Recommend loan indemnity or repurchase
  - Recommend termination of client
  - Lender Summary
  - Active Special Investigations Listing

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**Legal and Regulatory Compliance**  
**Jordan Dorchuck and Janice Butler**

# Regulatory Compliance

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**MISSION: To provide regulatory interpretation, support, and guidance to the Aurora Loan Services mortgage enterprise and assure company compliance with applicable laws/regulations while concurrently promoting an awareness of compliance issues through:**

- ◆ Building strong relationships and a high degree of communication with mortgage business units
- ◆ Prompt, accurate response to internal and external compliance inquiries
- ◆ Coordinating development and delivery of compliance training modules and written policies or procedures
- ◆ Participation in business unit projects
- ◆ Taking a proactive approach to addressing legislative changes and program improvements
- ◆ Monitoring operations for compliance and providing feedback

# Regulatory Compliance

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## The Compliance Program activities include:

- ◆ Managing federal audits, regulatory reporting, and regulatory/executive complaints
- ◆ Implementing necessary changes as a result of local/state/federal legislation
- ◆ Ensuring compliance with state high-cost home loan provisions (do not rely upon preemption)
- ◆ Monitoring HMDA data collection and reporting
- ◆ Monitoring ongoing compliance with applicable law, report audit findings, and track management responses in conjunction with Quality Control and Internal Audit
- ◆ Partnering with Learning and Development in the creation/update of compliance based training material
- ◆ Partnering with Legal and Product Development on implementation of new/revised documents

# Legal Department

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## The Legal Department has 3 main functions:

- ◆ **Litigation** — Manages ongoing litigation and recommends best practices.
- ◆ **Loan Production** — Supports the development of new and revised products; tracks and assists with the implementation of legislation and regulations; supports strategic initiatives; and advises retail, broker, and conduit operations about loan origination issues.
- ◆ **Loan Administration** — Provides legal advice, best practices and guidance on matters pertaining to general loan servicing matters, default and master servicing.

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**Contract Administration**  
**Russ Brady**

# Contract Administration

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## Primary Responsibilities

- ◆ Review findings on Aurora originated loans against reps and warrants in various governing agreements
- ◆ Determine Lehman's obligation to repurchase or make whole our investors/securitizations
- ◆ Pursue repurchase and make whole claims against Aurora clients according to reps and warrants of Aurora's Seller Guide and Broker Agreement
- ◆ Analyze losses due to rep and warrant violations and recommend reserve levels to Lehman Trading Desk

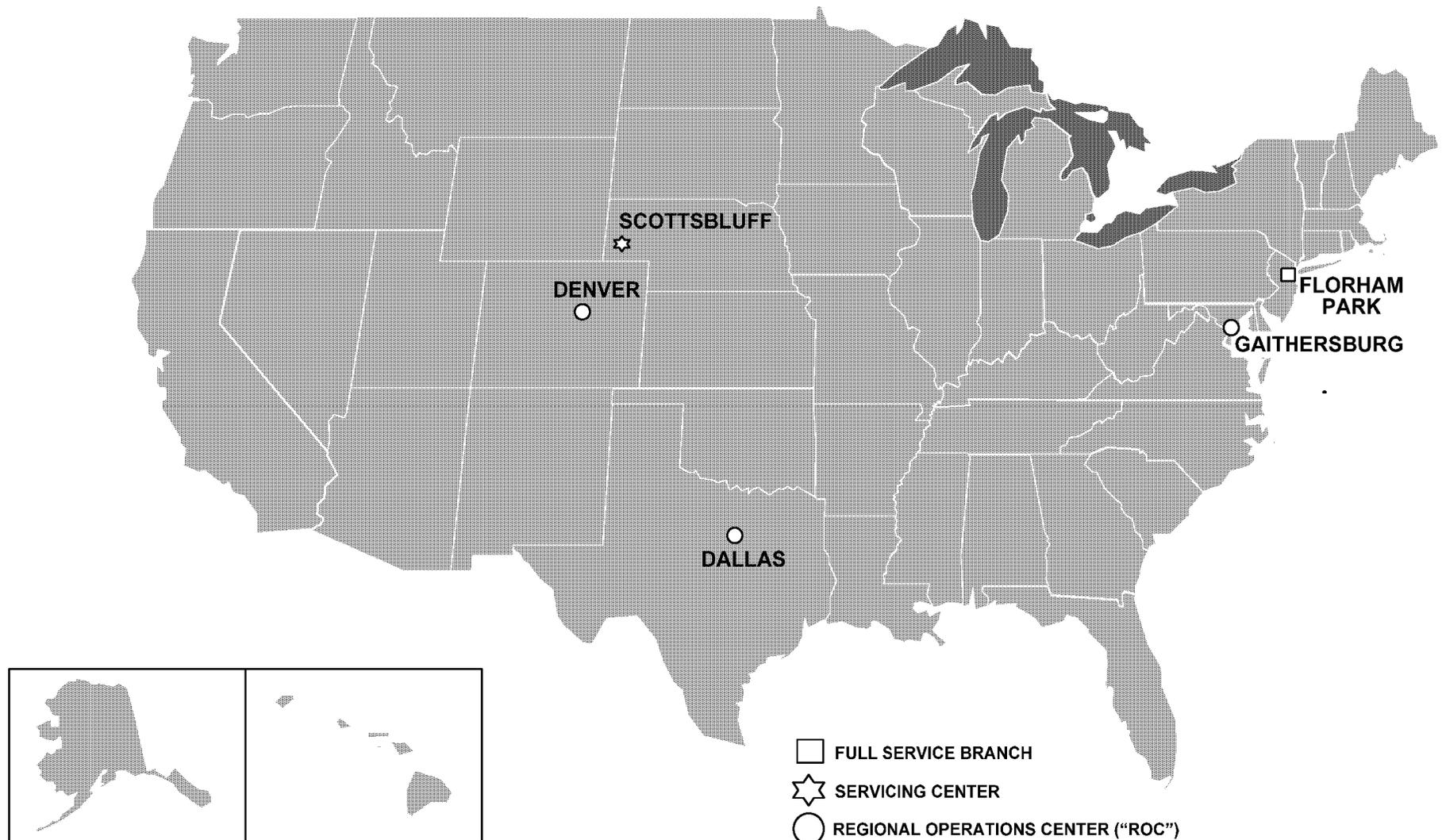
## Additional Responsibilities

- ◆ Negotiate settlements and escalate issues to the Lehman Trading Desk as appropriate
- ◆ Notify Master Servicer of material findings and instruct Master Servicer to repurchase loans from securitizations
- ◆ Monitor client performance as it relates to repurchase activity
- ◆ Escalate client issues to Sales and Client Review Committee
- ◆ Work with legal department on pursuit of claims through litigation
- ◆ Monitor indemnification agreements
- ◆ Work with Lehman bankers on securitization language

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**Production Operations**  
**Craig Wildrick**

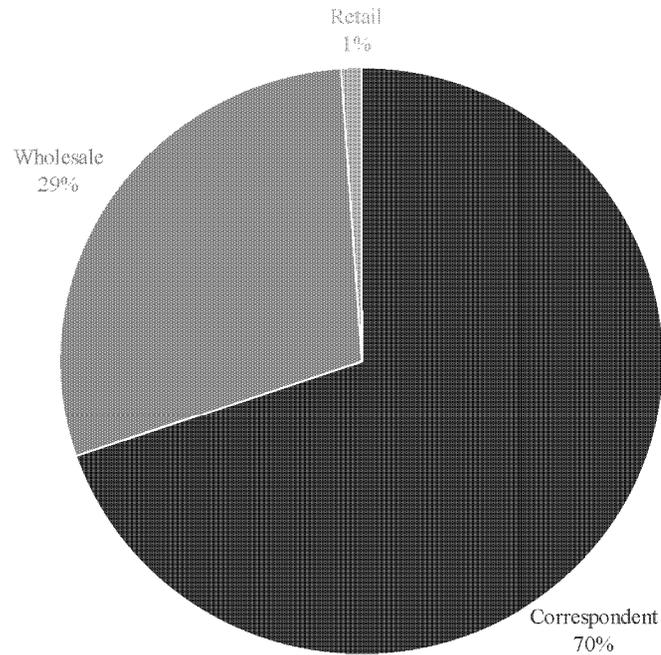
# Operations



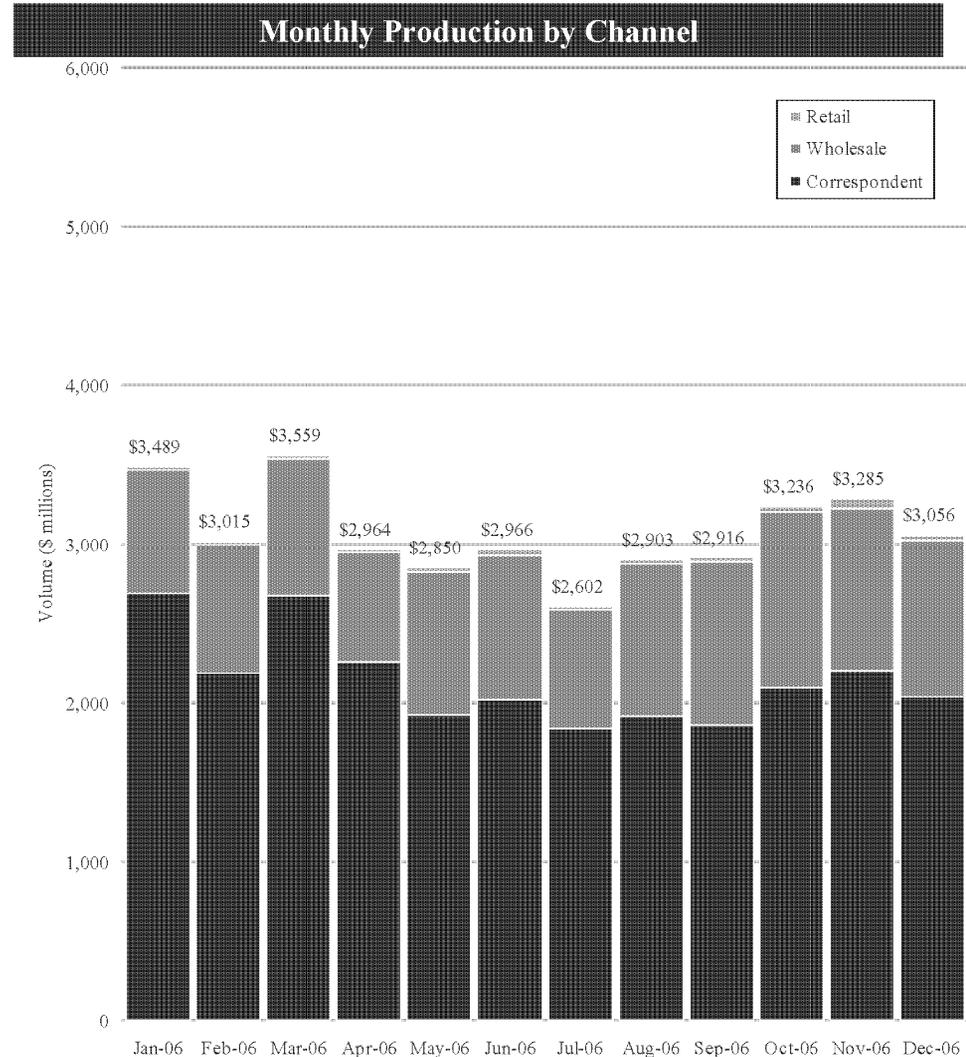
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# Aurora Loan Services – CY'06 Volume by Channel

## Loan Production by Channel



**CY'06 YTD Total Volume:  
\$36.8 billion**



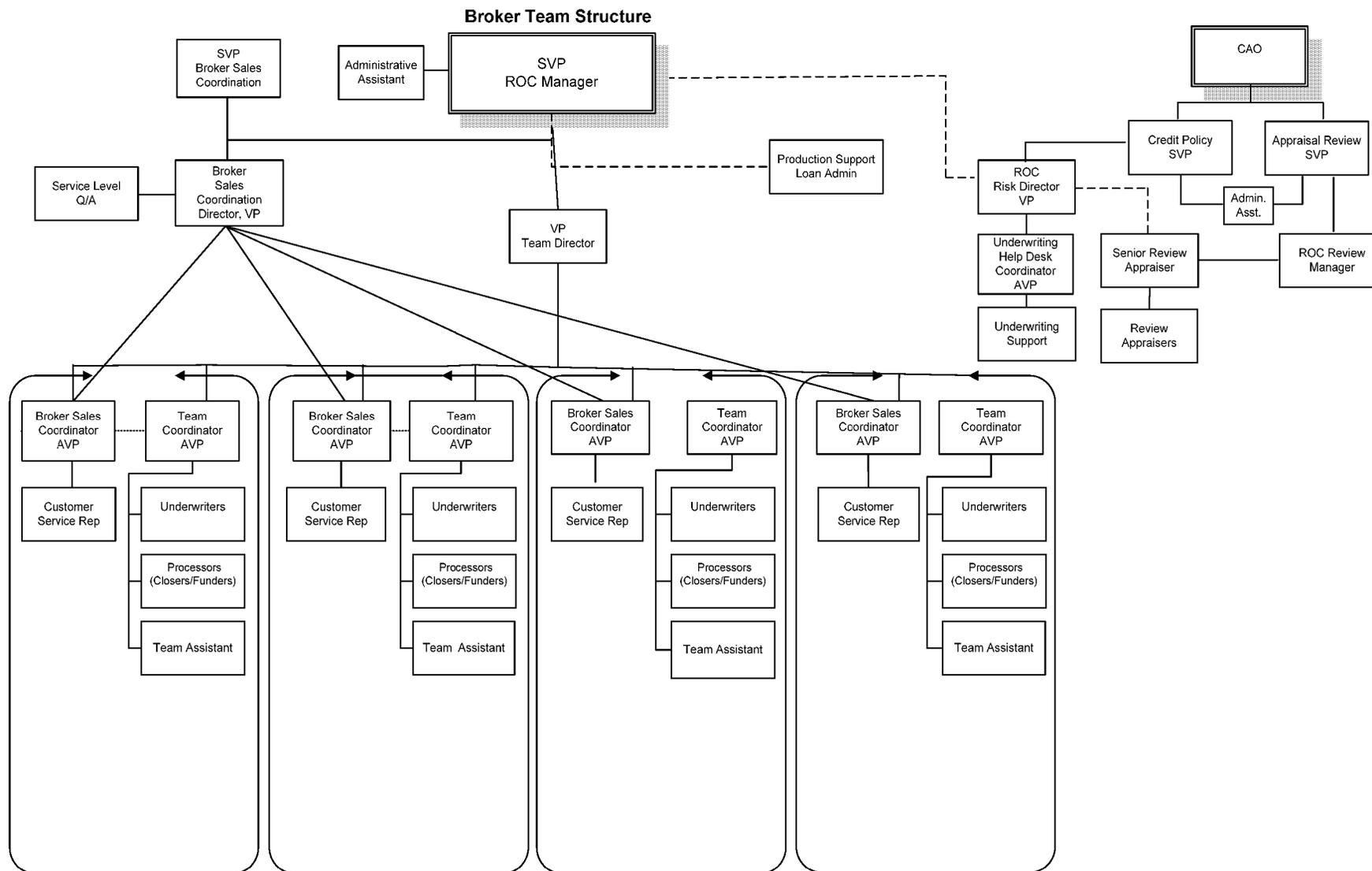
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## Broker Operations

# Broker Operations

## Team Process



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# Broker Sales Coordination

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**The sales partnership is embedded in the operations daily process and provides:**

- ◆ Answers questions from customers pertaining to
  - Product
  - Process and Procedures
  - Website
  - File Status
  
- ◆ The point of contact between the Operational Team and Brokers assigned to the team
  
- ◆ Liaison between Operations and the customers, tracking request and resolution of any issues pertaining to the successful underwriting and closing of a loan file

# Broker Operations

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## Loan Setup

- ◆ Customers are assigned to specific Operations Teams
- ◆ Initial data entry (loan submission)
  - Aurora Connect automation of 1003 and registration from Broker
- ◆ Files are submitted to the Centralized Production Support group in Nebraska where initial data entry is performed and files are imaged; in-house credit report ordered.
- ◆ In addition, the Team
  - Prints and mails disclosure material in compliance with RESPA
  - Orders flood certification
  - Submits targeted loans for fraud detection – As well as those required for appraisal review process by staff reviewer

## Lock Desk

- ◆ Lock Desk / Commitment Desk is located in Denver, CO for all Broker regions
- ◆ Desk reports to Capital Markets
- ◆ Some locks / registrations taken via Aurora Connect Website
- ◆ Administers locks, extensions, cancellations
- ◆ Answers internal questions regarding pricing
- ◆ Monitors and reports volumes

## Underwriting

- ◆ Provides guidance to Brokers both prior to and subsequent to file submission
- ◆ Reviews file and determines adequacy of
  - Credit: Review tri-merged credit report and in-file report for validity of credit scores and classification of credit
  - Collateral (Property): Complete review for acceptability of determined value, including detailed review of appropriateness of comparables, marketability and predominant value. Orders additional reviews as required
  - Capacity: Income (documented or stated) and assets reviewed for reasonableness
  - Fraud Detection
    - Reviews report tools on target loans to ensure proper quality. May also request additional fraud detection on case by case basis
    - Individual underwriters also access Internet Websites for more detailed investigation as required
- ◆ Ensures adherence to Aurora Loan Services guidelines and product description
- ◆ Provides overview and written recommendation to Senior Credit Authority for loan amounts greater than \$1.5 million
- ◆ Reviews and approves submission of conditions from the Broker
- ◆ Issues decision letters to Broker. This includes approvals, suspended loans and declines
- ◆ Risk Director and help desk staff, which report to Credit Policy, are the source for all second signatures, exception approvals, and guideline resources

## Underwriting Tools

- ◆ Online Resources and Industry Proprietary Lists are utilized to mitigate risk
- ◆ Agency DU and LP accepted for niche products to assist in analyzing risk
- ◆ Automated controls to ensure matrix eligibility and signature requirements based on underwriting authority levels

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## Closing

- ◆ Reviews title work to validate insurability.
- ◆ Ensures loan closing is consistent with underwriting approval & lock confirmation.
- ◆ Reviews details of transaction to ensure closing is in accordance with applicable laws, rules & regulations.
- ◆ Reviews title prelims, appraisals, flood cert and credit reports prior to preparing state-specific closing documents.
- ◆ Verifies loan terms and fees with Broker and Closing Agents to avoid high cost loan and/or truth-in-lending violations.
- ◆ Reviews executed closing documents and confirms all prior to funding requirements are satisfied.
- ◆ Confirms funding date and recording date with settlement agent.

## Centralized Post Closing

- ◆ Post Closer ensures closing was conducted in accordance with closing instructions.
- ◆ Follow up for all outstanding trailing documents including final Settlement Statements and obtains recording information.
- ◆ Post-closing to deliver collateral and loan file consistent with company policy.
- ◆ Function performed by Production Support.

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## Correspondent Operations

# Correspondent Operations

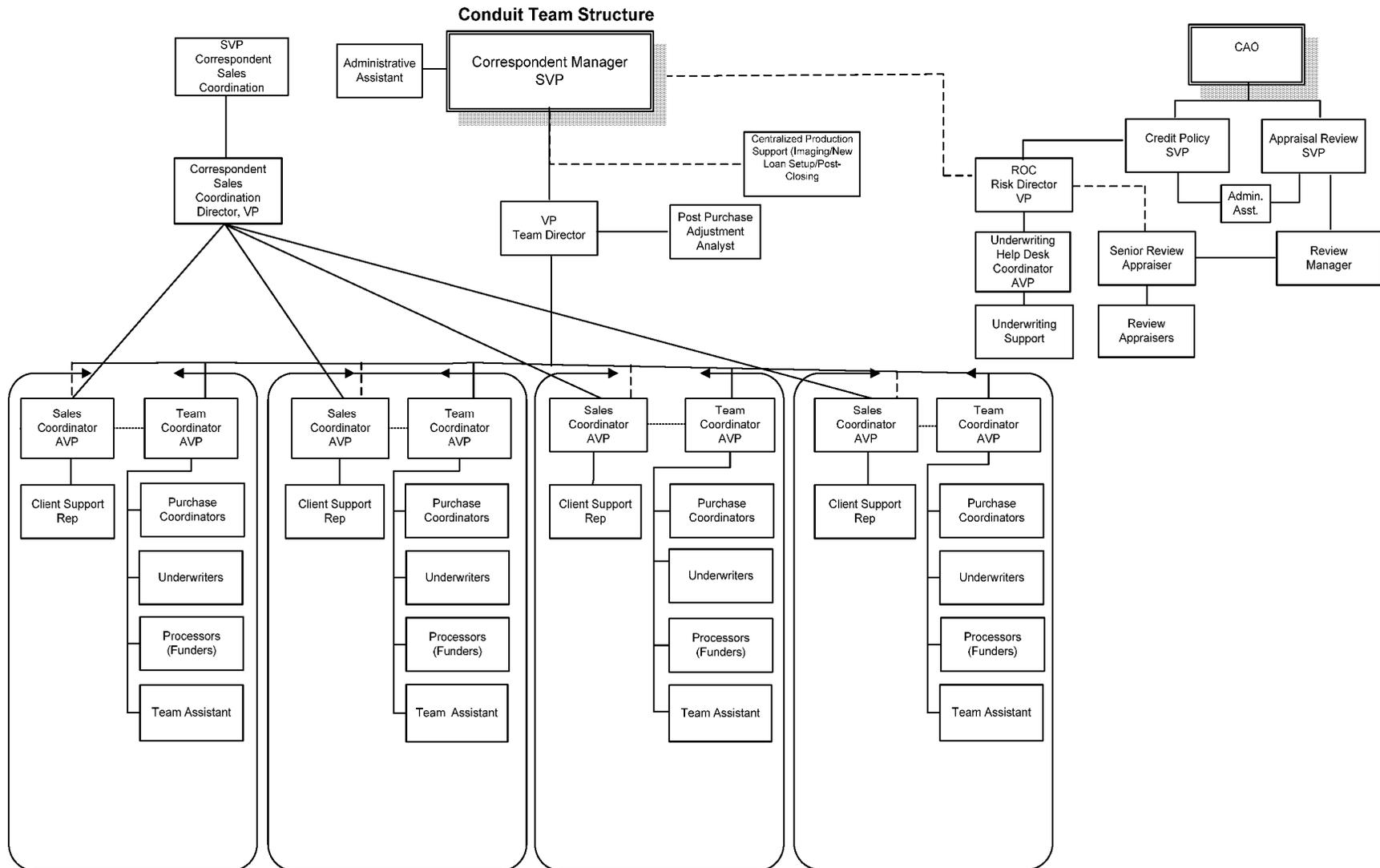
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## Client Tiering

- ◆ All of our clients have been classified in one of the following tiers:
  - Bronze: minimum net worth \$250,000
  - Silver: minimum net worth \$500,000
  - Gold: minimum net worth \$1,000,000
  - Platinum: best in class
- ◆ In addition to the net worth, an assessment of quality, loan performance after purchase, loan delivery prior to purchase, volume levels and product types are reviewed.
- ◆ The Bronze and Silver clients receive a full underwrite and purchase review of file and collateral prior to purchase.
- ◆ The Gold and Platinum clients receive a streamline review of their files and full Collateral review prior to purchase.
- ◆ Benefits for tiering include:
  - A specific analysis of risk by client.
  - Modified review processes based upon the risk.
  - Guaranteed turn times.
  - Reduced fees for best performing tiers.
  - Customization to the client's needs based upon assessed risk.
  - Consideration of delegated underwriting based upon assessed risk.

# Correspondent Operations

## Team Process



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# Correspondent Sales Coordination

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**The sales partnership is embedded as a liaison function within the team. The sales portion of the team provides the customer's first point of contact to:**

- ◆ Answers Questions
  - Process Related
  - Seller's Guide Questions
  - Website Access Activity
  - File Status
  
- ◆ Serves as the liaison for correspondents' requests and resolution of
  - Underwriting Issues
  - Underwriting Scenarios
  - Purchasing Issues
  - Review of Suspended Pipeline
  - Overall Pipeline
  
- ◆ Serves as the internal contact for Account Executives and Regional Managers in the field

# Correspondent Operations – Process Flow

## Client Approval

- ◆ Qualify new clients and re-certify clients annually.
  - Comprehensive financial analysis for new clients and Delegated Underwriting requests

## Commitments

- ◆ The Commitment Desk is located in Denver for production channels
- ◆ Commitment Desk reports to Capital Markets
- ◆ Nearly all commitments (98%) taken via the Aurora Website
- ◆ Provides loan-by-loan commitments, forward, aggregated flow and coordinates minibulk bids through capital markets
- ◆ Administers extensions, cancellations and pair-offs
- ◆ Monitors and reports volumes
- ◆ Customers are assigned to specific Operations Teams

## File Submissions

- ◆ Files are submitted to the Centralized Production Support group in Nebraska where initial data entry is performed and files are imaged.
  - Data submission to external vendor for fraud detection
  - Pulls in-house credit report for prior approval underwriting submission
- ◆ Receives, distributes and tracks
  - Files (purchase and underwriting submissions)
  - Collateral from warehouse bank
  - Faxes
  - Incoming overnight mail
- ◆ Distributes
  - Original collateral received to secure location and provides a full copy for file review

# Correspondent Operations – Process Flow

## Underwriting

- ◆ Ensures adherence to Aurora Loan Services guidelines and product descriptions
- ◆ Provides overview and written recommendation to Senior Credit Authority for loan amounts greater than \$1.5 million
- ◆ Issues decision letters to Correspondents
- ◆ Reviews submission of conditions
- ◆ Risk Director and help desk staff, which report to Credit Policy, are the source for all second signatures, exception approvals, and guideline resources

## Underwriting Tools

- ◆ Online Resources and Industry Proprietary Lists are utilized to mitigate risk
- ◆ Agency DU and LP accepted for niche products to assist in analyzing risk
- ◆ Automated controls to ensure matrix eligibility and signature requirements based on underwriting authority levels

## Underwriting Prior Approval Requests

- ◆ Determine the adequacy of:
  - Credit: Review tri-merged credit report for validity of credit scores and classification of credit. May require tradeline-by-tradeline review for reporting repositories to determine most accurate score
  - Collateral (Property): Complete review for acceptability of determined value, including detailed review of appropriateness of comparables, marketability and predominant value
  - Capacity: Income (documented or stated) and assets reviewed for reasonableness
  - Fraud Detection: Reviews report tools on target loans to ensure proper quality. May also request additional fraud detection on case by case basis
  - Individual underwriters also access internet Websites for more detailed investigation as required

# Correspondent Operations

## Purchasing

- ◆ Reviews for accuracy and completeness for underwriting, legal documents, etc.
- ◆ Validates collateral is accurate for program delivered.
- ◆ Ensures loan closed consistent with Underwriting approval/program guidelines.
- ◆ Ensures data integrity and accurate pricing at the loan level.
- ◆ Performs high cost testing.
- ◆ Calculates purchase proceeds and coordinates wire of funds.
- ◆ Generates purchase advice to the website.
- ◆ Most Delegated files bypass underwriting process, with certain files receiving credit review during purchase review.

## Bulk Process

- ◆ Certain approved clients are offered alternative delivery methods. Typically they are the Gold and Platinum Level customers.
- ◆ Aggregated Flow: provides the client the ability to lock on a flow basis, but deliver and fund in bulk. The same operational processes described previously apply.
- ◆ Bulk: provides the client the ability to submit a tape of data containing the loan detail. Aurora Loan Services provides a bid, makes a due diligence selection, takes delivery of the files and uses the tape data for a bulk purchase within an average of 2 week overall turntime.

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## Retail Operations

# Retail Operations

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- ◆ Retail is currently very small percentage of total production and includes primarily employee loans.
- ◆ A new executive (Jeff McGuinness) was recently hired to expand the retail channel. The initial strategy will largely center around capturing loans that are paying off (or likely to pay off) from Aurora's Servicing Portfolio.
- ◆ Retail Operations is currently handled as a subset of the Denver broker operations center.

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## Technology Initiatives

# Key Technology Initiatives

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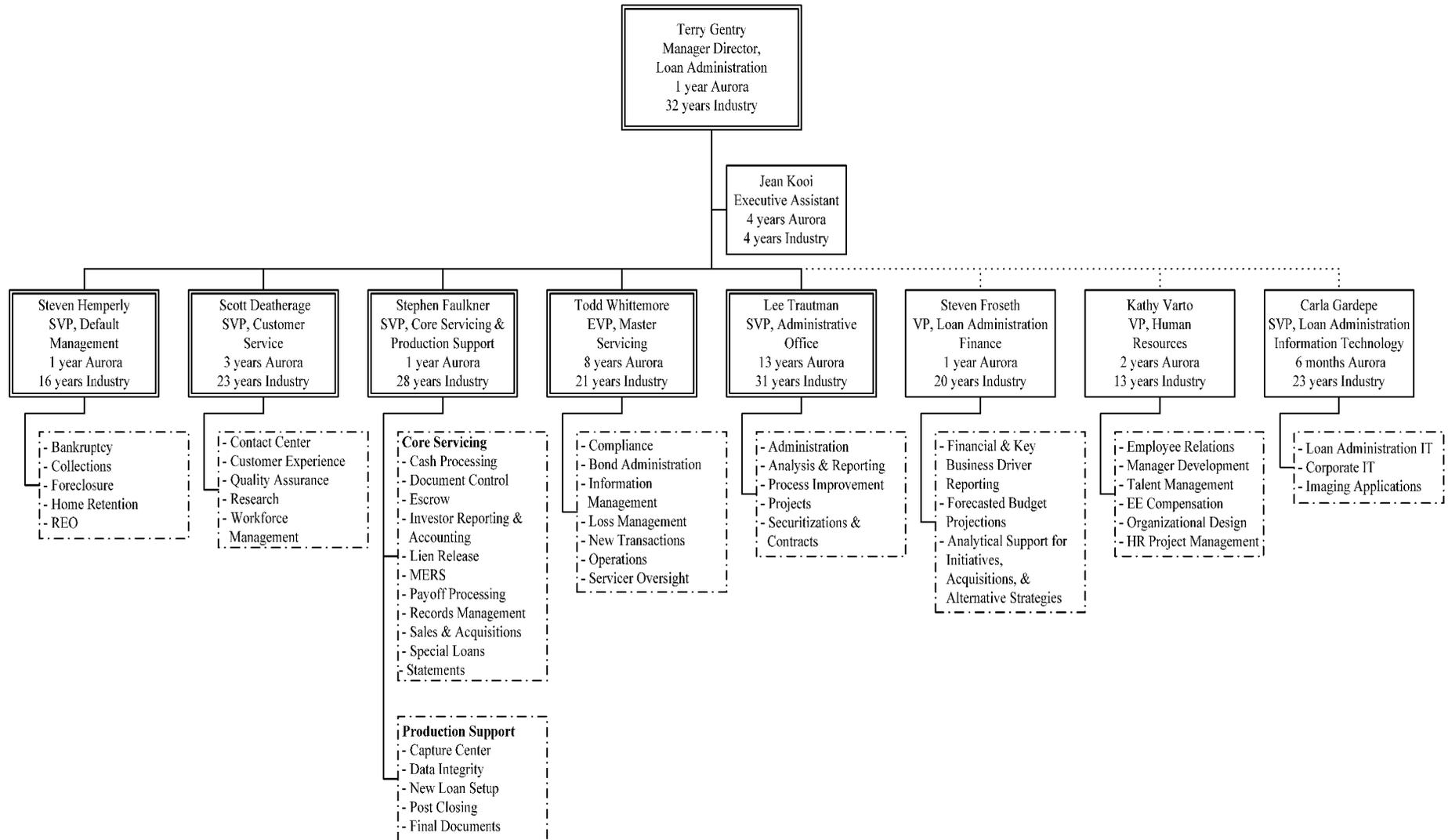
- ◆ Automated Underwriting Engine
- ◆ New Loan Origination System (Empower)
- ◆ Document Management System (Imaging)
- ◆ Centralized Production Support/National Imaging Center

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**Loan Administration**  
**Terry Gentry, Todd Whittemore and Lee Trautman**

# Overview

## Loan Administration Structure



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# Loan Administration Tenure

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## Aurora Staffing Experience (Years)

	Industry	Firm
Manager	17.4	6.0
Supervisor	9.3	5.8
Staff	4.9	3.0
All-in	6.4	3.5

**On average, Loan Administration Management has worked in the industry for over 17 years and been with Aurora for 6 years**

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# Loan Administration Values

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- ◆ **Our core business philosophies**
  - Controlled environment
  - Meet customer expectations
  - Competitively efficient
- ◆ **How we measure performance**
  - Were we on time?
  - Were we within budget?
  - Did we deliver what we promised?
- ◆ **The culture we ascribe to (adopted from Lou Holtz)**
  - Always do what is right
  - Always do the best you can
  - Always treat other people the way you would like to be treated

# Overview

## Statistics and Highlights

- ◆ Subject to Office of Thrift Supervision (OTS) review as Lehman Brothers Bank subsidiary.

### As of December 31, 2005

- ◆ \$75.2 Billion UPB Primary Serviced
- ◆ 392,484 Loans Primary Serviced
- ◆ 507 Primary Servicing Employees
- ◆ 68 Production Support Employees
- ◆ \$166.1 Billion UPB Master Serviced
- ◆ 927,574 Loans Master Serviced
- ◆ 133 Master Servicing Employees
- ◆ FITCH Master Servicer Rating - RMS1-
- ◆ FITCH Primary Servicer Rating - RPS2+
- ◆ FITCH Special Servicer Rating - RSS2-
- ◆ Moody's Master Servicer Rating - SQ2+
- ◆ Moody's Primary Servicer Rating - SQ2
- ◆ Moody's Special Servicer Rating - not rated
- ◆ S&P Master Servicer Rating - Above Average
- ◆ S&P Residential Servicer Rating - Above Average
- ◆ S&P Subprime Servicer Rating - Average
- ◆ S&P Special Servicer Rating - Average

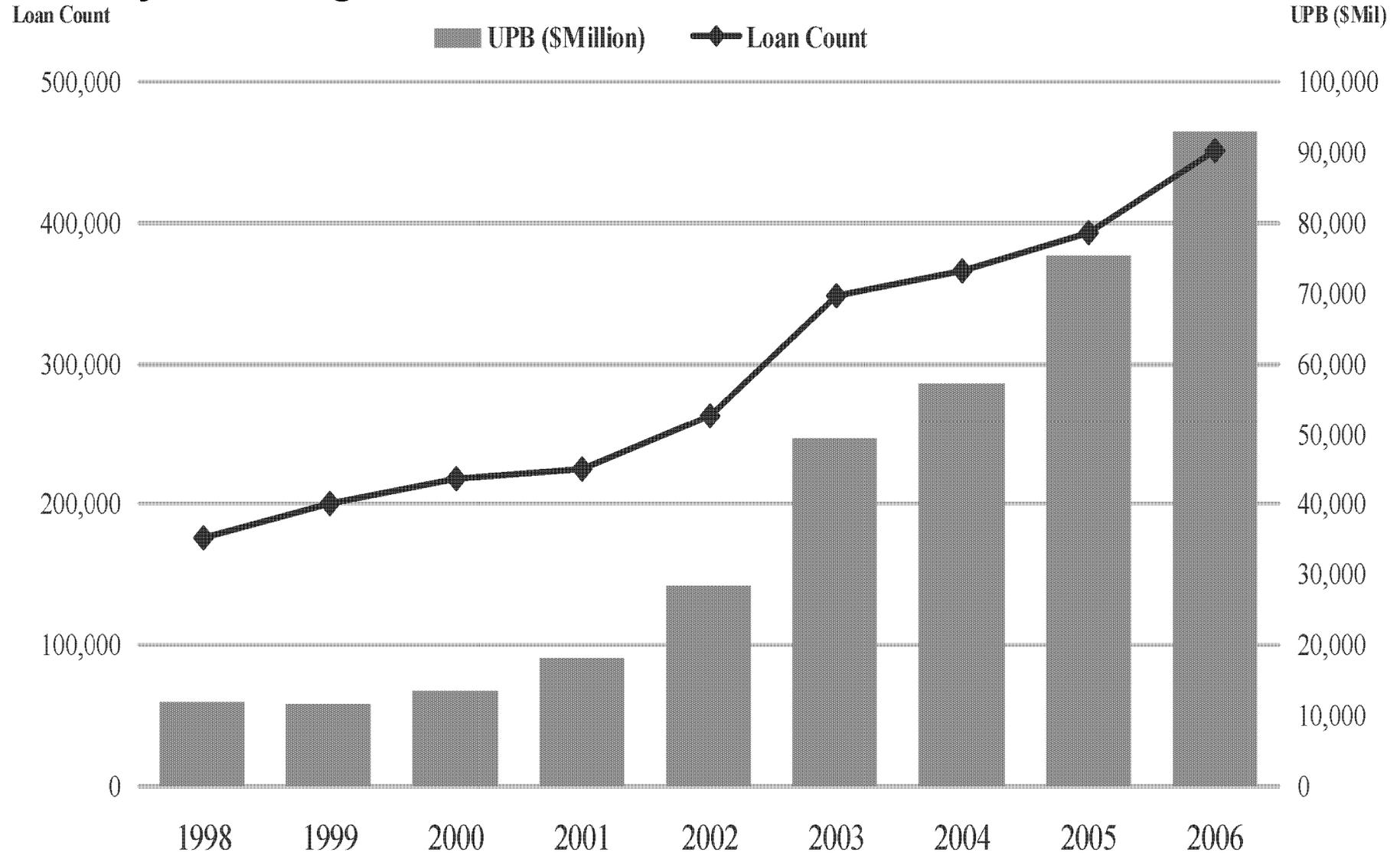
### As of December 31, 2006

- ◆ \$92.9 Billion UPB Primary Serviced
- ◆ 451,573 Loans Primary Serviced
- ◆ 548 Primary Servicing Employees
- ◆ 198 Production Support Employees
- ◆ \$191.5 Billion UPB Master Serviced\*
- ◆ 1,018,796 Loans Master Serviced\*
- ◆ 175 Master Servicing Employees
- ◆ FITCH Master Servicer Rating - RMS1-
- ◆ FITCH Primary Servicer Rating - RPS2+
- ◆ FITCH Special Servicer Rating - RSS2-
- ◆ Moody's Master Servicer Rating - SQ1-
- ◆ Moody's Primary Servicer Rating - SQ2
- ◆ Moody's Special Servicer Rating - SQ2-
- ◆ S&P Master Servicer Rating - Above Average
- ◆ S&P Residential Servicer Rating - Above Average
- ◆ S&P Subprime Servicer Rating - Average
- ◆ S&P Special Servicer Rating - Average

\*Master Servicing totals include Servicer data through November 30, 2006

# Primary Servicing

## Primary Servicing Portfolio – UPB and Loan Count

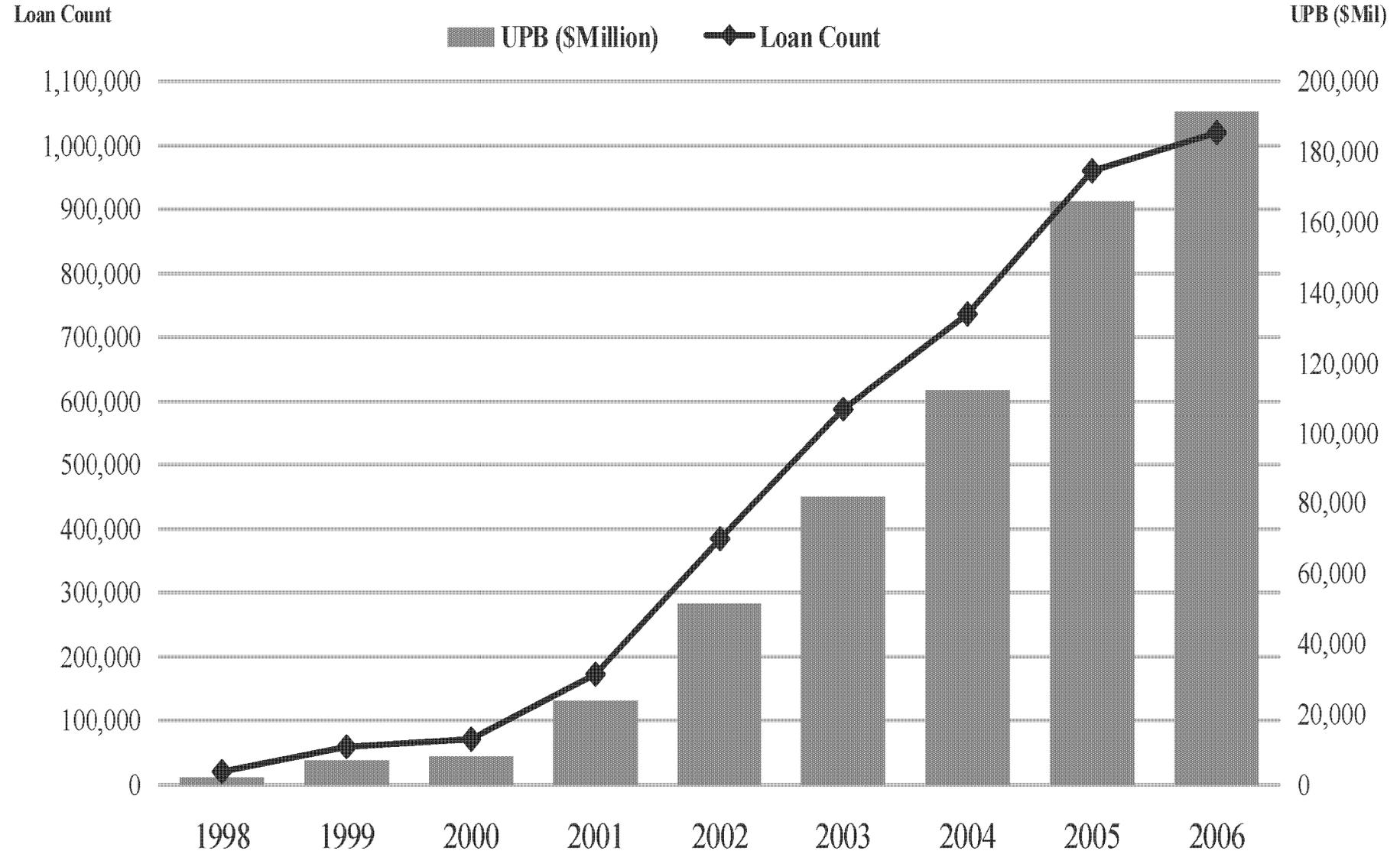


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# Master Servicing

## Master Servicing Portfolio – UPB and Loan Count



2006 Total includes Servicer data through November 30, 2006.

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# Overview

<b>Loan Administration Functions and Locations</b>		
<b><u>Littleton, Colorado</u></b>	<b><u>Scottsbluff, Nebraska</u></b>	<b><u>Mumbai, India</u></b>
Cash Management	Administrative Office	Assignments
Default Management: Bankruptcy Default Surveillance Foreclosure High Risk Assets Home Retention Real Estate Owned (REO)	Customer Service	Correspondence Unit
	Default Management: Collections Default Control Default Reporting Default Sales & Acquisitions Home Retention	Customer Service Research
		Image Validation
		Investor Accounting
		Lien Releases
		New Loan Setup
		Payoffs
Investor Relations	Escrow Administration	Special Loans
Master Servicing	Production Support: Capture Center New Loan Setup Post Closing Final Documents	
	Records Management	
	Sales & Acquisitions	

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# Overview

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## Lehman Brothers India Office

- ◆ Lehman Brothers recently made a strategic decision to aggressively pursue the potential benefits of utilizing an India-based workforce
  - Lehman Brothers’ India office is located in Mumbai
  - Facility designed to Firm-wide standards for IT infrastructure and security
- ◆ As part of the Firm-wide initiative, Aurora has led the Mortgage Capital Division’s (MCD) migration of mortgage processing functions
  - Robert Simpson, Head of MCD India (formerly Aurora’s Head of Servicing), is responsible for all loan processing and servicing functions
  - The India office provides cost advantages while also achieving high-quality processing and improved turn times
  - Business continuity profile is improved by having processing capabilities 24/6
  - Aurora continues to evaluate new opportunities to transition servicing and production support functions
  - We do not currently anticipate transitioning customer-facing functions
- ◆ Results from the Lehman Brothers India office
  - Across the Firm, productivity and information security objectives have been achieved
  - Aurora’s mortgage processing functions have consistently performed at or above target levels for both productivity and accuracy

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# Overview

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## Agency and Consultant Reviews

- ◆ Moody's Investors Service Servicer Review – March 2006
- ◆ Ginnie Mae Servicer Audit – March 2006
- ◆ Clayton Fixed Income Services Servicer Review – March 2006
- ◆ Master Servicing Evaluation – May 2006
- ◆ Securities and Exchange Commission (SEC) Review – June 2006
- ◆ Office of Thrift Supervision (OTS) Exam – July-August 2006
- ◆ Fitch Ratings Servicer Review – September 2006
- ◆ Fannie Mae Servicer Audit – October 2006
- ◆ HUD Claims Audit – November 2006
- ◆ Federal Home Loan Bank of Pittsburgh Review – December 2006

# Core Servicing

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## Core Servicing consists of the following areas

- ◆ Cash Management
- ◆ Payoffs
- ◆ Special Loans
- ◆ Escrow Administration
- ◆ Investor Relations
- ◆ Sales and Acquisitions (includes new loan boarding)
- ◆ Records Management

# Cash Management & Payoffs

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## Cash Management Functions

- ◆ Cash Management: Monitor internal and external processing of borrowers' payments in accordance with standard industry practices and borrower instructions while resolving all cash related inquiries from both internal and external sources (borrowers, sellers, and new servicers)

## Payoffs Function

- ◆ Prepare and issue payoff statements in accordance with policy and federal and state guidelines

# Special Loans

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## Function

- ◆ Monitor and adjust various loan-specific terms per provisions of the note

## Key Metrics (values as of December 31, 2006)

- ◆ 35,500 – number of interest-only fixed rate loans
- ◆ 196,670 – number of interest-only adjustable rate loans
- ◆ 48,876 – number of non-interest only adjustable rate loans
- ◆ 19,619 – number of balloon loans
- ◆ 30,800 – number of DSI loans

# Escrow Administration

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## Functions

- ◆ Insurance and Taxes: Pay insurance and taxes in accordance with corporate policy. Manage vendor relationships, including procedures and controls.
- ◆ Escrow Analysis: Complete annual analysis after first tax installment using aggregate method and in accordance to RESPA guidelines.

## Key Metrics (values as of December 31, 2006)

- ◆ 63.66% of portfolio is escrowed
- ◆ 100% of escrow analyses completed within compliance

# Investor Relations

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## Functions

- ◆ New Securitizations: Establish reporting for new securities, including funding reconciliation, bank account set up, loan transfers and managing the first three months of reporting.
- ◆ Agency Reporting: Report and remit to Ginnie Mae, Fannie Mae and Freddie Mac master servicers.
- ◆ Private Securities Reporting: Report and remit to private investors in accordance with established investor guidelines and servicing agreements.
- ◆ Investor Accounting: Responsible for the reconciliation and variance reporting of all investor P&I and T&I custodial accounts; completes daily reconciliation and verification of all check disbursement activity and daily reconciliation and verification of all HELOC advances.

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# Sales & Acquisitions

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## Functions

- ◆ Acquisitions: Board all acquired loans, including reconciling all balances with previous servicer.
- ◆ Data Integrity: Perform post conversion audit consisting of over 220 logic tests on loans boarded.
- ◆ Lehman Sales: Prepare all files in flow and private loan sales for transfer, including clearing all file stipulations.
- ◆ New Loan Boarding: Manage automated boarding of all Aurora-originated loans, including multiple workstation setups for ARM and other special types of loans.
- ◆ Service Releases: Coordinate and execute removal of sold loans from system, including reconciling all balances with new servicer.
- ◆ Electronic Loan Interface (ELI): Aurora's ELI system automates new loan boarding and provides ability to complete data review and corrections before merging to servicing system.
- ◆ Loan Boarding Servicing Process (LBSP): Front end audit process for all loans prior to boarding MSP.

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# Records Management

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## Functions

- ◆ Document Control: Track and retrieve custodial documents as required to support all departments within Servicing
- ◆ Fileroom: Maintain inventory of documents and files, distributing materials as needed to all departments
- ◆ MERS and Assignments: Record legal title of collateral at county courthouses in all states and territories and maintain same on MERS
- ◆ Releases: Prepare and record release documents for paid-in-full loans

# Default Management

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## Default Management consists of the following areas

- ◆ Default Strategy
- ◆ Collections
- ◆ Home Retention Group
- ◆ Default Operations
- ◆ Default Control

# Default Strategy

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## Functions

- ◆ Predictive Dialer Management
  - Dialer management and strategy, campaign assignment, and dialer reporting.
- ◆ Risk and Loss Models
  - Developing risk analytics around portfolio performance
  - Developing delinquency and loss forecasting models
  - Development, implementation, and management of Collection Strategies
  - Collections capacity plan forecasting
- ◆ Risk Scoring
  - Data analysis
  - Development and implementation of behavior score modeling
- ◆ Quality Assurance

# Default Strategy

## Early / Late Stage Collections

- ◆ Accounts segmented by risk score into high, medium, and low risk segments
- ◆ Collection strategy and calling optimized using risk scores and number of days delinquent

	Early Stage			Late Stage		
Risk	High	Medium	Low	High	Medium	Low
Call Campaigns Begin (Days Delinquent)	Day 5	Day 10	Day 15	Day 46	Day 46	Day 46
Number of Messages to Call Back per Day	1.0	1.0	1.0	1.0	1.0	1.0

- ◆ Once contact is made, the following options are available:
  - Secure a promise to pay
  - Establish a repayment/forbearance plan
  - Schedule a follow-up call back date
  - If no appropriate resolution obtained, refer to Home Retention for further counseling
- ◆ Specific calling campaigns by Home Retention to focus on workout solutions for problematic accounts

# Collections

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## Functions

- ◆ Early Stage Collections
  - 700 accounts per Loan Counselor
  - Loan Counselors handle loans up to 45 days delinquent
  - All accounts serviced by next available loan counselor
  - Loans worked through predictive dialer (Aspect)
- ◆ Late Stage Collections
  - 150 accounts per Loan Counselor
  - Loan Counselors handle loans 46+ days delinquent
  - Loans worked through preview mode in dialer
  - Loan counselors have ownership of loan until borrower
    - Pays current
    - Establishes repayment plan
    - Qualifies for home retention plan
    - All opportunities for resolution have been exhausted

# Collections

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## Functions (cont.)

- ◆ Early and First Payment Default: Focus efforts on potential early payment default loans
- ◆ Skip Tracing: Identify telephone numbers for borrowers using various strategies.
- ◆ Default Reporting: Prepare reports for investors, federal agencies, mortgage insurance companies, and credit reporting agencies as required. Submit regular credit bureau reporting, and resolve credit disputes.

## Hours of Operations

- ◆ 6:00 AM - 7:00 PM MST Monday and Friday
- ◆ 6:00 AM - 9:00 PM MST Tuesday through Thursday
- ◆ 7:00 AM - 12:00 PM MST Saturday
- ◆ Loans worked through predictive dialer (Aspect)

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# Home Retention

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## Functions and Strategies

### Agency / Government Loans

- ◆ Loan Workout
  - Workout options offered based on investor guidelines.
  - Processor functions include new package setup, negotiation, and settlement.
- ◆ Inbound/Outbound Call Support
  - Specific call campaigns by product and risk.
- ◆ Home Retention Solicitation
  - Depending on product type, home retention options are offered as follows:
    - Fannie Mae and Home Express calling campaigns start at day 31.
    - Mass letter solicitation for Government loans sent at day 65.

### Non-Agency / Non-Government Loans

- ◆ Loan Workout
  - Workout options offered based on investor guidelines, with an emphasis on cash flow and re-performance.
  - Processor functions include new package setup, negotiation, settlement, and enhanced skip tracing.
- ◆ Inbound/Outbound Call Support
  - Specific call campaigns by product and risk.
- ◆ Home Retention Solicitation
  - In addition to mass solicitation letters issued via the collections department for all loan types, special solicitation letters are issued on non-investor Conventional and Subprime loans during special solicitation campaigns and throughout delinquency in an attempt to educate the borrower of possible foreclosure avoidance options.

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# Home Retention - Real Estate Owned (REO)

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## Functions

- ◆ Eviction process and/or relocation assistance if occupied
  - Relocation assistance offered on all occupied REO assets
  - Cash for Keys Calculator estimates savings for REO when successful relocation assistance procedure is done (as compared to the eviction process)
- ◆ Property evaluation conducted with two sources of value: appraisal and BPO
- ◆ Each property assigned to internal REO team consisting of an asset manager and assistant
  - Marketing plan
  - Initial list price and price reductions
  - Negotiate highest and best offer
  - Final contract to closer
- ◆ Internal staff coordinates closing of sales contract through approved offices

# Default Operations - Bankruptcy

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## Functions

- ◆ File proofs of claim
- ◆ Refer for Stay Lift (motion for relief) will begin at non-payment day 65
- ◆ Monitor trustee funds
- ◆ Ensure funds received are posted according to plan
- ◆ Monitor attorney performance via Lenstar, Aurora exception reporting, and use of Aurora's Attorney Report Card

# Default Operations - Foreclosure

---

## Functions

- ◆ Referrals to counsel or trustee
  - Aurora utilizes a nationwide attorney network with at least one law office in each state.
- ◆ First legal filing and monitoring
  - Tracks conventional, FHA, and VA first legal status
  - Prioritizes workload by expected first legal date
  - Generates customized management reports
- ◆ Judgment and sales
  - Monitors the timeliness of judgment entry and foreclosure sale
- ◆ Timeline compliance database
  - Calculates loan level timeline compliance by FHA, VA, FNMA, and FHLMC guidelines
  - Generates customized management reports
  - Monitors attorney and foreclosure processor performance
  - Due Diligence compliance rate for December 2006 was 91% (goal 90%+).

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# Default Operations - High Risk Assets

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## Functions

- ◆ High Risk Assets handles the following types of subject matter cases and determines the best exit strategy to minimize any potential risk to the Firm.
  - Code Covenant and Restrictions (CC & R)
  - Credit Reporting / Defamation
  - Eminent Domain
  - Erroneous Release
  - Lien Priority
  - Partitions Actions
  - Partial Release Issues
  - Title Issues / Title Claims
  - Bankruptcy Adversary
  - Contested Foreclosure
  - Probate
  - HOA's
  - Mechanic Liens
  - Federal Seizures
  - Repurchase / Indemnity Issues

# Default Control

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## Functions

- ◆ Claims and Cash
  - Manage vendors
  - File loss mitigation incentive, MI, and investor claims
  - Review and process default cash
- ◆ Claims Accounting
  - Submit security billings
  - Monitor for payment
  - Complete final accounting
- ◆ Financial Reconciliations and Research
  - Prepare foreclosure bidding instructions
  - Provide reinstatement and payoff quotes for loans in foreclosure status
  - Monitor paid in full report and clear trailing balances
  - Respond to default customer inquiries

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# Customer Service

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## **Customer Service consists of the following areas**

- ◆ Customer Service Contact Center
- ◆ Customer Service Operations
- ◆ Customer Service Research
- ◆ Correspondence Unit
- ◆ Quality Assurance Group

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# Customer Service

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## Functions

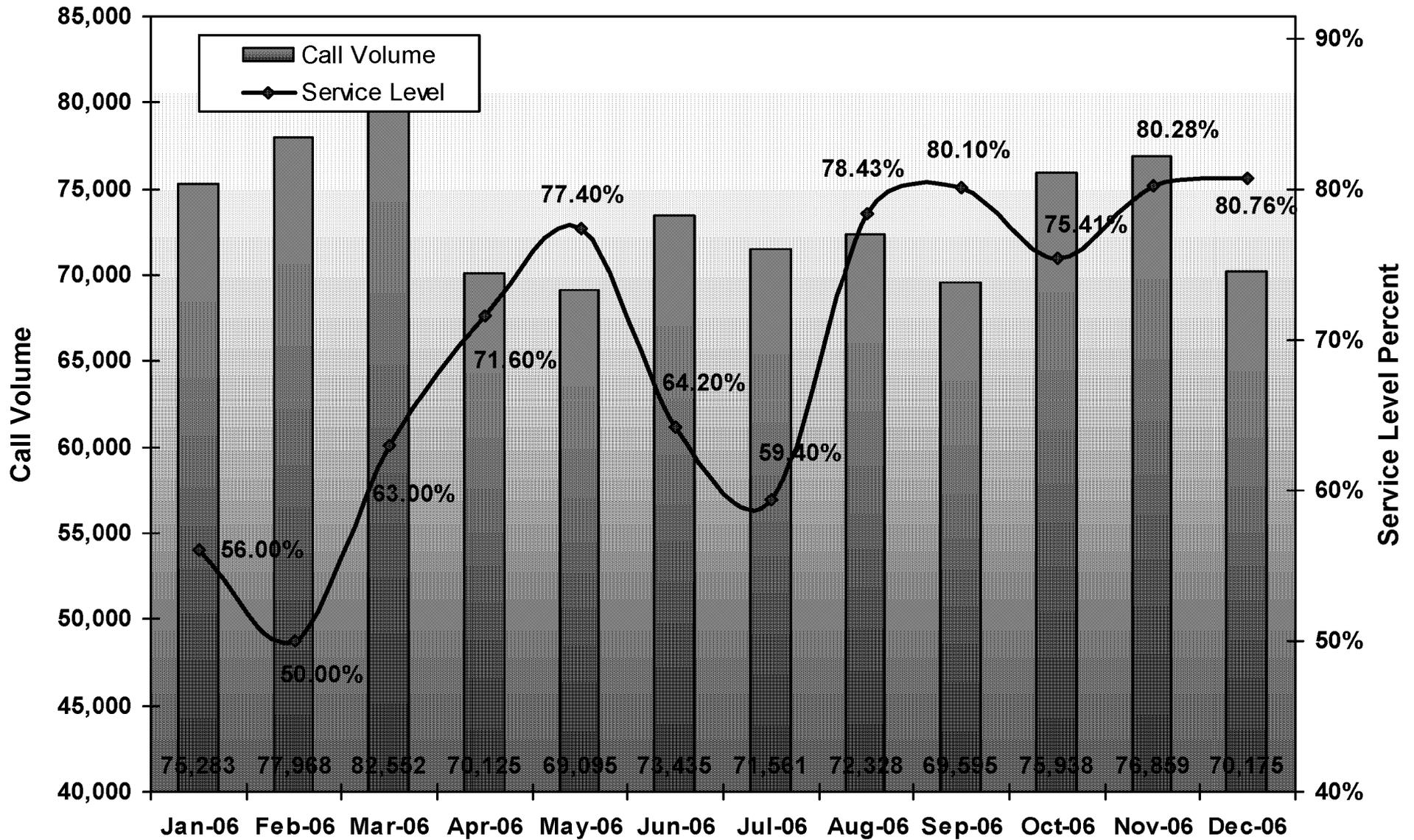
- ◆ Contact Center: Accept all Customer Service related incoming calls and provide “One Stop Shop” Customer Service in English and Spanish
  - Hours of operation are 6:00 AM to 7:00 PM MST Monday through Friday and 8:00 AM to 12:00 PM MST Saturday
- ◆ Customer Service Operations: Business focus on tactical and strategic support, customer and employee surveys, process improvement, workforce management, customer communications, customer self-service and technology
- ◆ Customer Research: Respond to customer requests, investigate complaints, resolve issues and provide backup phone support for Contact Center
- ◆ Correspondence Unit: Ensure timely acknowledgement and response to customer correspondence and email per RESPA guidelines
- ◆ Quality Assurance: Perform 5 evaluations per contact center agent monthly and review written research responses to borrowers

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# Customer Service

## Service Level and Monthly Call Volume



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# Master Servicing

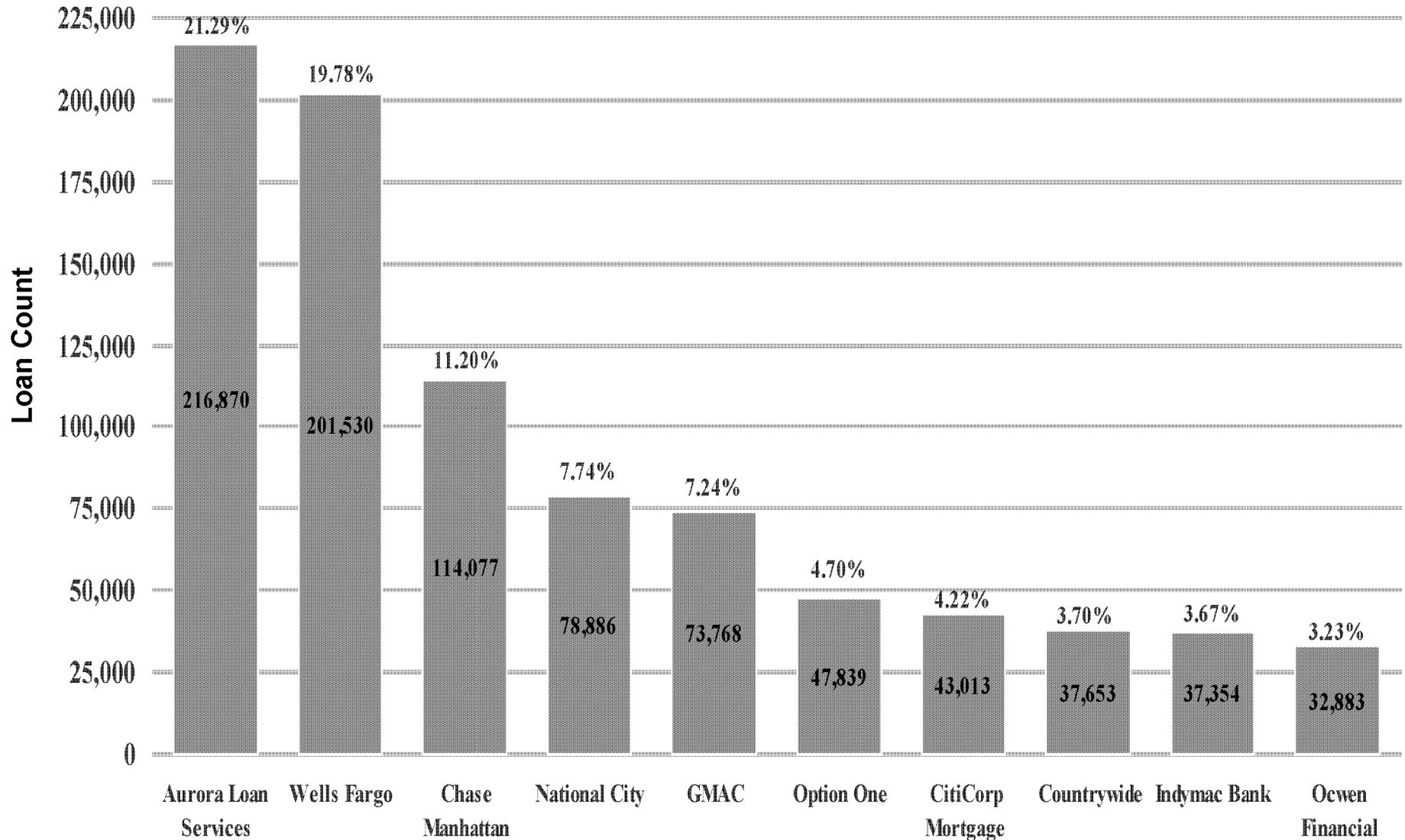
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## Master Servicing consists of the following areas

- ◆ Information Management
- ◆ New Transactions
- ◆ Master Servicing Operations
- ◆ Servicer Oversight
- ◆ Loss Management

# Master Servicing

## Master Servicing – Top Ten Servicers (as of November 30, 2006)



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# Information Management

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## Functions

- ◆ Information Management is comprised of three groups: Conversions, Process Management and Information Management Support. Collectively, they are responsible for:
  - The timely and accurate loading of new loans and monthly servicer remittance data to SBO2000
  - Improving business processes and work-flows within Master Servicing
  - Facilitating business functions and reporting requirements via application support and development
  - Facilitating cross-departmental projects

# Information Management

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## Conversions Functions

- ◆ Conversions is responsible for the timely and accurate setup of loans into SBO2000.
  - Origination Loans are loaded to SBO2000 from a fixed length text file produced from TMO.
  - Acquisition Loans are loaded to SBO2000 from a fixed length text file produced from Whole Loan Tracking.
  - Data Integrity: SBO2000 has built-in validations/edits, and Conversions performs many checks (preload CAS edits, note reviews, and post boarding SBO2000 portfolio edit checks).
- ◆ Conversions is responsible for the timely and accurate loading of monthly servicer remittance files.
  - Averaging 1,548 report files per month (average, October-December 2006)
  - Secure upload/auto-load functions increased efficiencies
    - 98.62% of files auto-loaded (average, October-December 2006)

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# New Transactions

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## Functions

- ◆ New Transactions is comprised of two functional groups.
  - Servicer Remittance Processing
  - Transaction Management

# New Transactions

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## **Servicer Remittance Processing Functions**

- ◆ Whole Loans
  - Completes process of new loan acquisitions
  - Completes “priority” portfolios for loans being securitized in current month
- ◆ Special Operations
  - Proactively contacts servicers to ensure new loans transfer into new investors
  - Completes processing for new securities until no issues
  - Ensures no new cash items or SDRs are moved into Operations Balancing
- ◆ Servicer Transfers and Acquisitions
  - Proactively contacts servicers to ensure smooth loan transfers
  - Balances and resolves UPB and due date set up by new servicers to information provided by prior servicers
  - Completes daily balancing portfolios

# New Transactions

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## Transaction Management Functions

- ◆ New Securitizations
  - Serves as contact for Lehman on new securitizations and sales
  - Provides data for securitizations
  - Provides information to Servicers on new securitizations
  - Reviews agreements
  - Completes sale transactions on system
- ◆ Mortgage Insurance
  - Sets up mortgage insurance on new securitizations
  - Completes reconciliation with servicers and MI companies on new securities
- ◆ Investor Inquiries
  - Centralized location

# Operations

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## Functions

- ◆ Operations is comprised of four functional areas.
  - Servicer Balancing: Ensures the timely and accurate reporting and remittance by primary servicers, including pool and loan level balancing of the reported data
  - Investor Reporting: Timely and accurate reporting and remittance to Investors under strict deadlines
  - Special Loans: Ensures the accuracy of SBO2000 data necessary to properly service adjustable rate mortgages and other special loan products
  - Default Claims: Reviews and approves servicer requests for reimbursement of liquidation advances with an emphasis on managing receipt of liquidation and mortgage insurance proceeds

# Servicer Oversight

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## Default Advisory Functions

- ◆ Participate in primary servicer site reviews
- ◆ Make asset level decisions on items exceeding servicer delegated authority
- ◆ Provide business input to primary servicers
- ◆ Identify and coordinate the transfer of non-performing assets to Aurora and/or recovery vendors
- ◆ Receive and update systems with monthly servicer default file for trust reporting
- ◆ Offer exception management
- ◆ Review and approve actions as indicated in applicable agreements

# Servicer Oversight

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## Master Servicing Compliance & Quality Assurance Functions

- ◆ Compliance
  - Sarbanes-Oxley
  - Regulation AB
  - Ensures Master Servicing is in compliance with contractual obligations
  - Ensures Master Servicing is in compliance with internal policy regarding physical and electronic safeguarding of customer and company information
- ◆ Quality Assurance
  - Creates quality assurance programs
  - Performs quarterly quality assurance reviews

# Servicer Oversight

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## **Servicer Review Functions**

- ◆ Due Diligence on behalf of Lehman
- ◆ Servicer site reviews
- ◆ Servicer desk reviews
- ◆ Servicer “Help Desk” or loan level inquiries
- ◆ Management of escalated issues regarding servicer performance

# Loss Management

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## Functions

- ◆ Loss Management is dedicated to improving the performance of Lehman's whole loan portfolio and Lehman securitizations by enforcing the contractual obligations of loan originators, servicers, and mortgage insurance companies.
- ◆ Loss Management is comprised of three functional areas
  - Due Diligence performs loan level reviews of credit package documentation and property valuation for fraud and misrepresentation.
  - Mortgage Insurance Rescissions performs loan level reviews, with the help of Due Diligence, to verify that the rescission is valid, supported, and material to the decision to insure the loan.
  - Claims utilizes Due Diligence findings or internal data in conjunction with the applicable governing agreements to identify loans which violate the covenants or representations and warranties provided by the seller. Appropriate remedies are pursued upon discovery of a breach.

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*Confidential treatment requested by Aurora Loan Services*