

*Confidential Presentation to:*

# 2006 OTS Presentation

BNC Mortgage, Inc.

*August 15, 2006*

LEHMAN BROTHERS

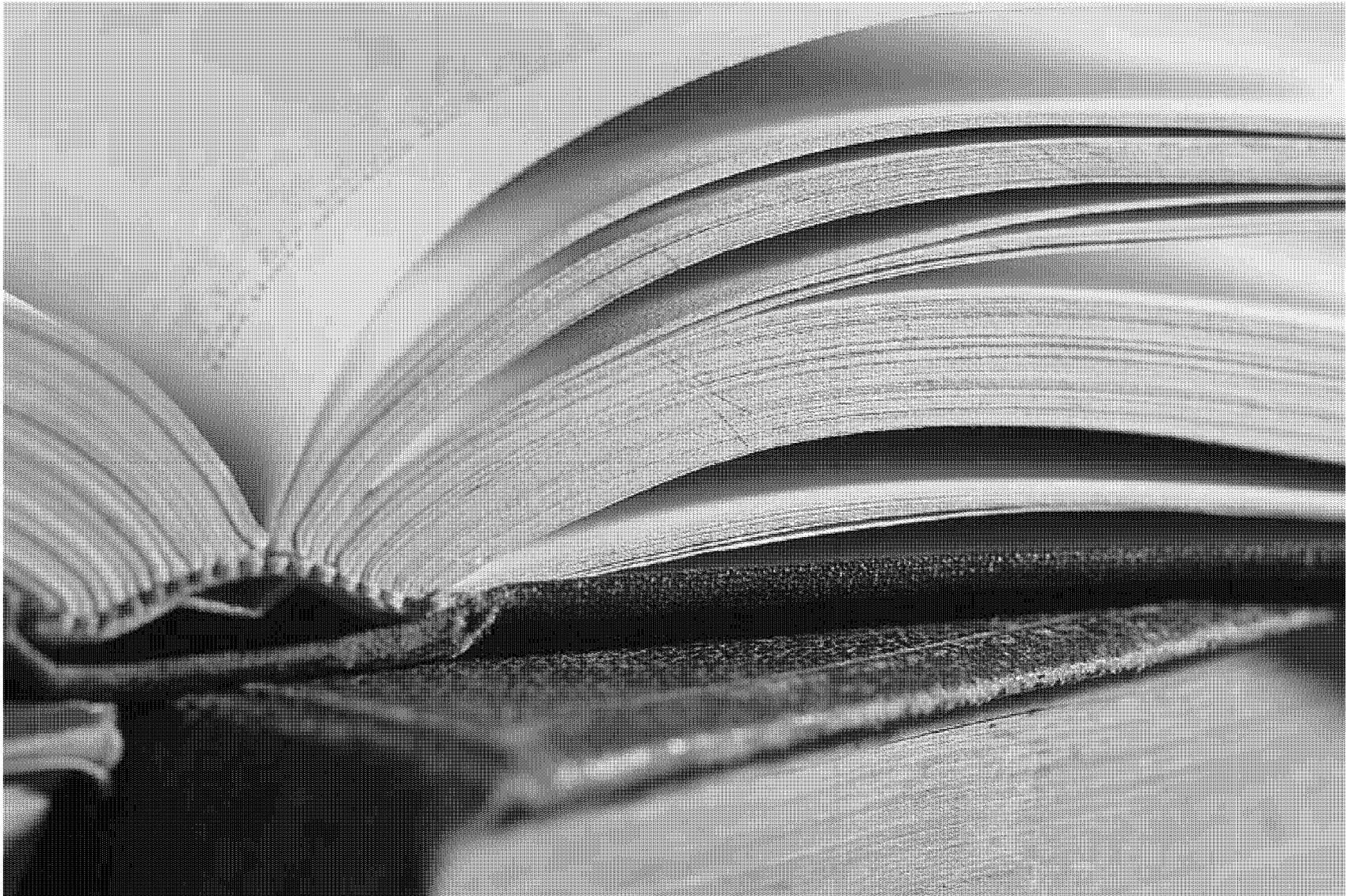
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1. Overview of Company's History and Organizational Model
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# HISTORY & ORGANIZATIONAL MODEL

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LEHMAN BROTHERS

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# History and Background

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## ◆ BNC Mortgage

- Incorporated in May, 1995
- Lehman relationship established in 1996/1997
- IPO completed in March 1998
- BNC management partnered with Lehman to buyout public in July, 2000
- BNC becomes subsidiary of Lehman Brothers Bank in March 2004
- Originated over \$50 billion since inception
- National broker origination network
  - Loan origination in 48 states
  - Over 36,440 approved independent loan brokers
  - 420 Account Executives

## ◆ Finance America

- Finance America, LLC was formed as a de novo Joint Venture between Lehman Brothers and AMRESKO July 1999, and launches business operations in January 2000
- Lehman purchases AMRESKO's ownership % in January 2002
- Global Services India initiative rolled out in November 2002
- Becomes wholly owned subsidiary of Lehman Brothers in June 2004
- Originated over \$21 billion since inception

## **Merger of BNC and Finance America effective January 1, 2006**

# Core Operating Philosophy

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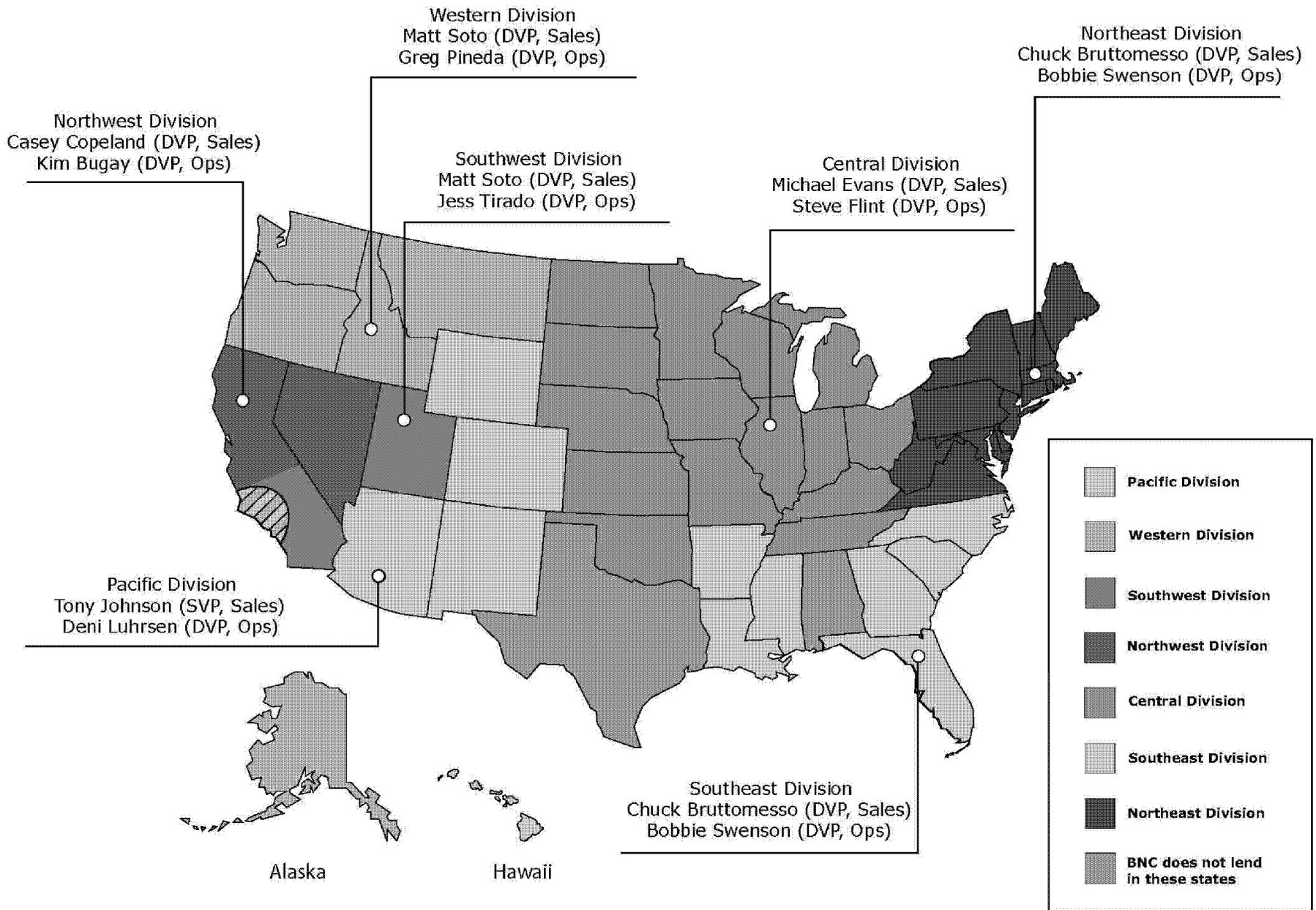
- ◆ All cash loan sales
- ◆ Maintain high level of quality control
- ◆ Proactive to changes in secondary market
- ◆ Conservative fiscal and lending policy
- ◆ Network of full service branches
- ◆ Technology
- ◆ Low cost producer

# Organizational Models

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## ◆ BNC Mortgage

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





☆ BNC Branches

★ Irvine, CA  
BNC Corporate

-- East / West Divide

**Arizona**  
Tempe

**California**  
Campbell  
Corona  
Concord  
Covina  
Glendale  
Long Beach  
Orange County  
San Diego  
South Bay  
San Ramon  
Woodland Hills

**Colorado**  
Denver

**Connecticut**  
Hartford

**Florida**  
Sunrise  
Tampa

**Hawaii**  
Honolulu

**Illinois**  
Downers Grove

**Maryland**  
Baltimore

**Michigan**  
Detroit

**Minnesota**  
Roseville

**Missouri**  
St. Louis

**New Jersey**  
Florham Park

**Nevada**  
Las Vegas

**New York**  
Melville

**Oregon**  
Lake Oswego

**Pennsylvania**  
Pittsburg

**Utah**  
Salt Lake City

**Washington**  
Seattle

**Wisconsin**  
Milwaukee

LEHMAN BROTHERS

# Leadership

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**BNC Mortgage's Management comprises a seasoned team of industry veterans.**

**Kelly W. Monahan**

*Chief Executive Officer, Managing Director*

Mr. Monahan is the Chief Executive Officer and President of BNC Mortgage, Inc. In July 2000 he led the management buyout of the Company. Mr. Monahan has been with BNC since its inception in 1995. He is a certified public accountant and has 12 years of mortgage banking experience.

**Peter R. Evans**

*Executive Vice President, Chief Administrative Officer*

Mr. Evans is the Chief Administrative Officer and a Executive Vice President of BNC Mortgage, Inc. Mr. Evans joined BNC in 1998. He previously served as the Chief Financial Officer of BNC Mortgage, and with Koll Real Estate Group, Inc. as a Senior Vice President. Previously, Mr. Evans was with Deloitte & Touche and served real estate, mortgage and financial services companies. He is a certified public accountant and has 20 years of mortgage banking and real estate industry experience.

**Al Lapena**

*Executive Vice President, Chief Operations Officer*

Mr. Lapena is the Chief Operations Officer and Executive Vice President for BNC Mortgage, Inc. He has been with BNC since 1997. From 1992 to 1997, Mr. Lapena was with the Taxable Fixed Income Division for Donaldson, Lufkin & Jenrette, Inc. He has 23 years of mortgage banking experience.

**Gail Schlentz**

*Senior Vice President, Chief Credit Officer*

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

# Leadership cont.

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## **Tony Johnson**

*Senior Vice President of Sales, West Division*

Mr. Johnson is the Senior Vice President of Sales for BNC Mortgage, Inc. Mr. Johnson joined BNC in 1996. He has 20 years of mortgage banking experience.

## **Joe Hullinger**

*Senior Vice President of Sales, East Division*

Mr. Hullinger is the Senior Vice President of Sales for BNC Mortgage, Inc. Mr. Hullinger joined Finance America in 2001, and is now with BNC Mortgage, Inc. He has 20 years of mortgage banking experience.

## **Donald D'Ambrosio**

*Chief Financial Officer*

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

## **Ken DeFeo**

*Vice President of Appraisal*

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

# Leadership cont.

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## **Mary Santandrea**

*Senior Vice President, Legal Counsel and Compliance*

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

## **Karen Whitney**

*Senior Vice President, Director of Human Resources*

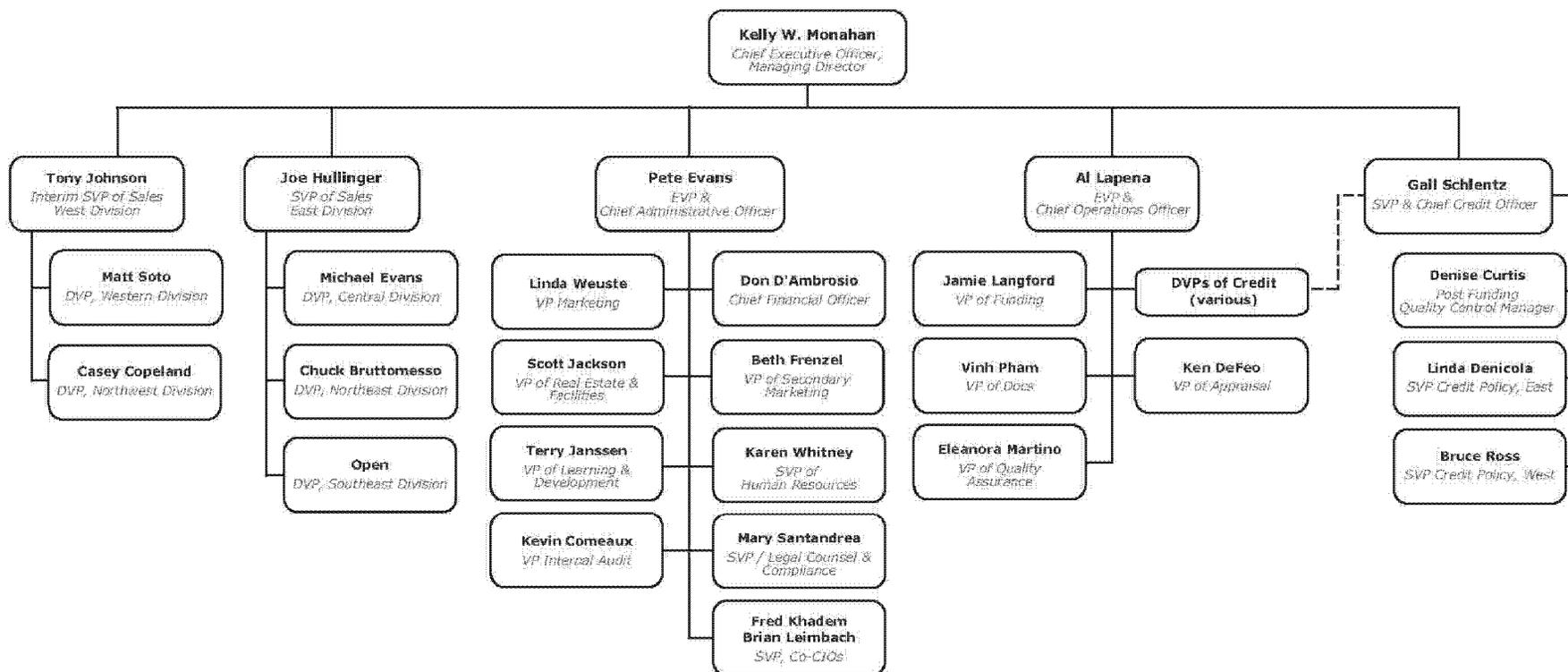
Ms. Whitney is the Senior Vice President of Human Resources for BNC Mortgage, Inc. She has 12 years of human resources experience.

## **Beth Frenzel**

*Vice President, Secondary Marketing*

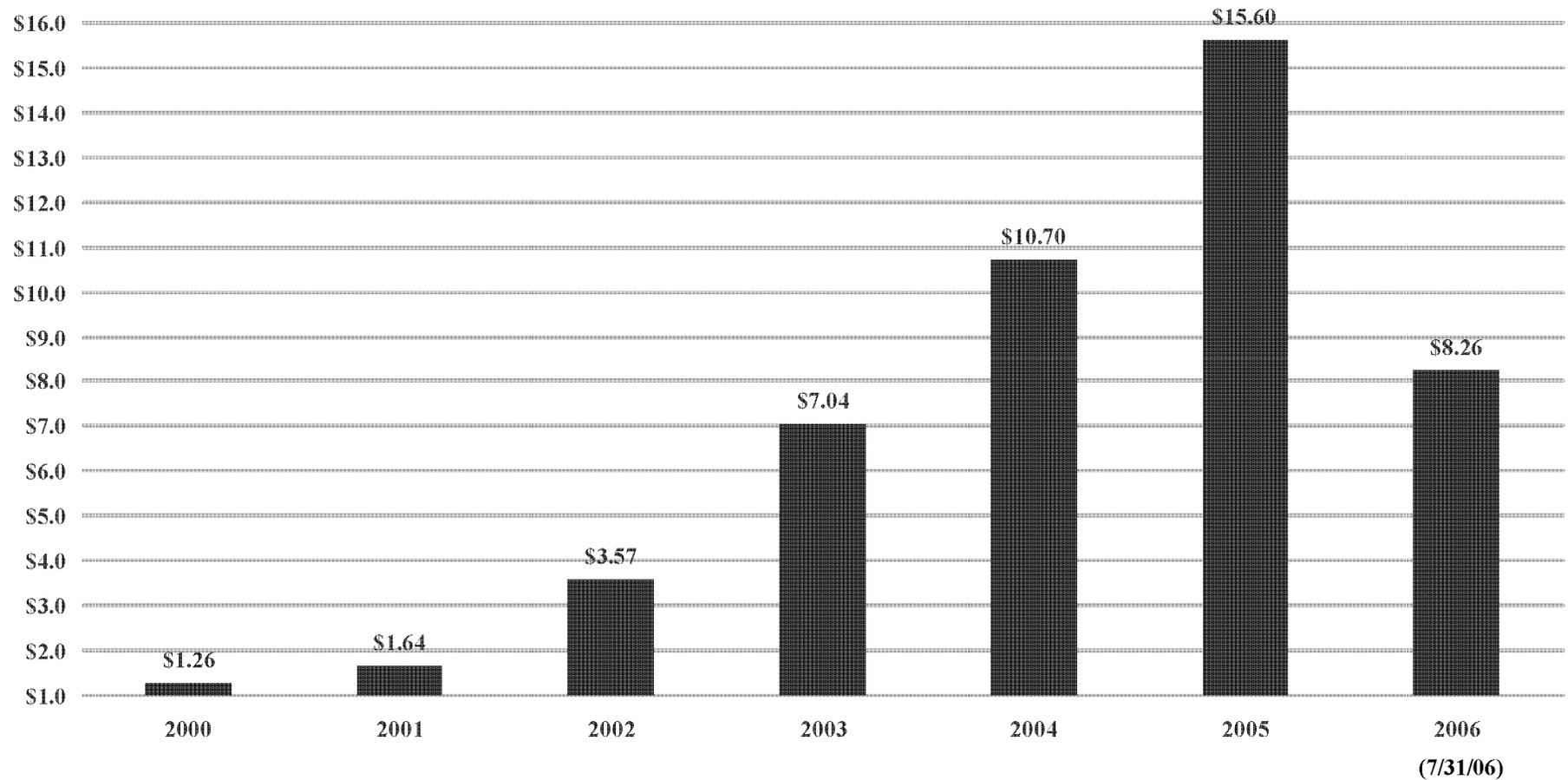
Ms. Frenzel is the Vice President of Secondary Marketing. She manages the loan sale, product development and due diligence activities of BNC Mortgage. Ms. Frenzel has over 15 years of experience in the “prime” and “subprime” residential arenas.

*Organizational Chart*



# Origination Volume — January, 2000 – July, 2006

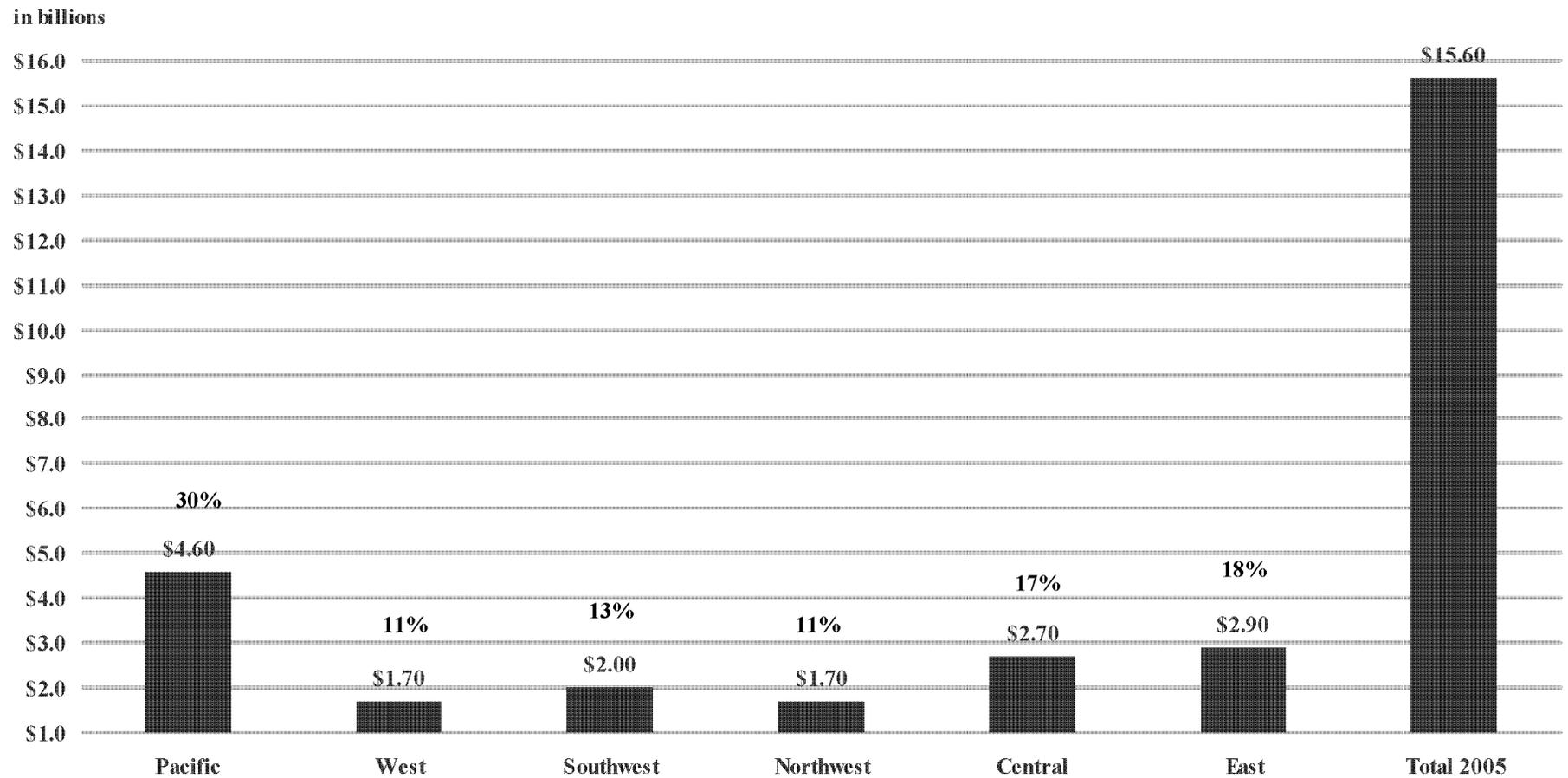
in billions



LEHMAN BROTHERS

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# Origination Volume by Division



# Balance Sheet (as of July 31, 2006) – 000's

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## ◆ **BNC Mortgage, Inc.**

### ◆ Assets

Cash	\$289,000
Mortgage loans held for sale	\$1,297,000
Deferred taxes	\$15,000
Goodwill	\$27,000
Fixed assets	\$12,000
Other assets	\$46,000
Total assets	\$1,686,000

### ◆ Liabilities & Equity

Accrued expenses and payables	\$85,000
Warehouse line of credit	\$1,271,000
Common stock	\$39,000
Additional Paid-in-capital	\$291,000
Retained earnings	\$290,786
Total liabilities & equity	\$1,686,000

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# SELECTED PRODUCTION CHARACTERISTICS

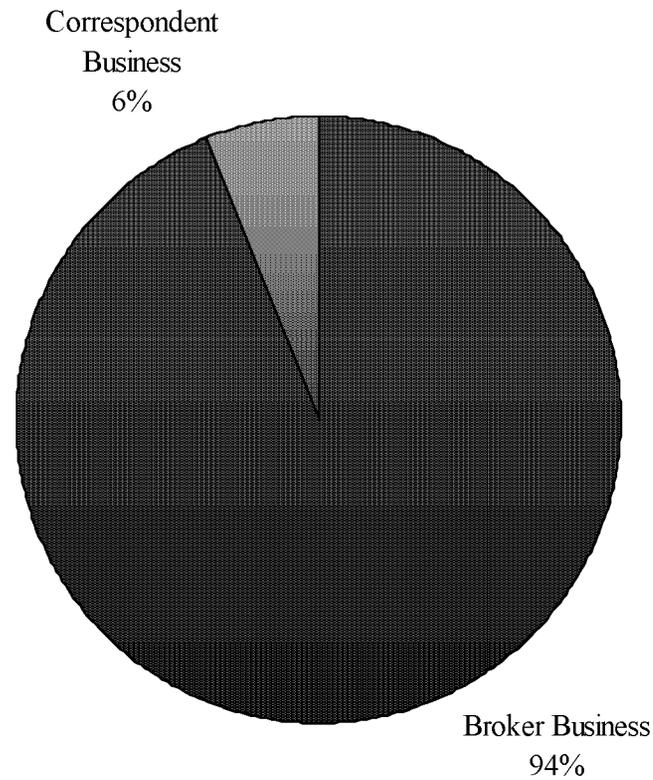
Year-to-date July 31, 2006



# Channels

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Year-to-date July 31, 2006



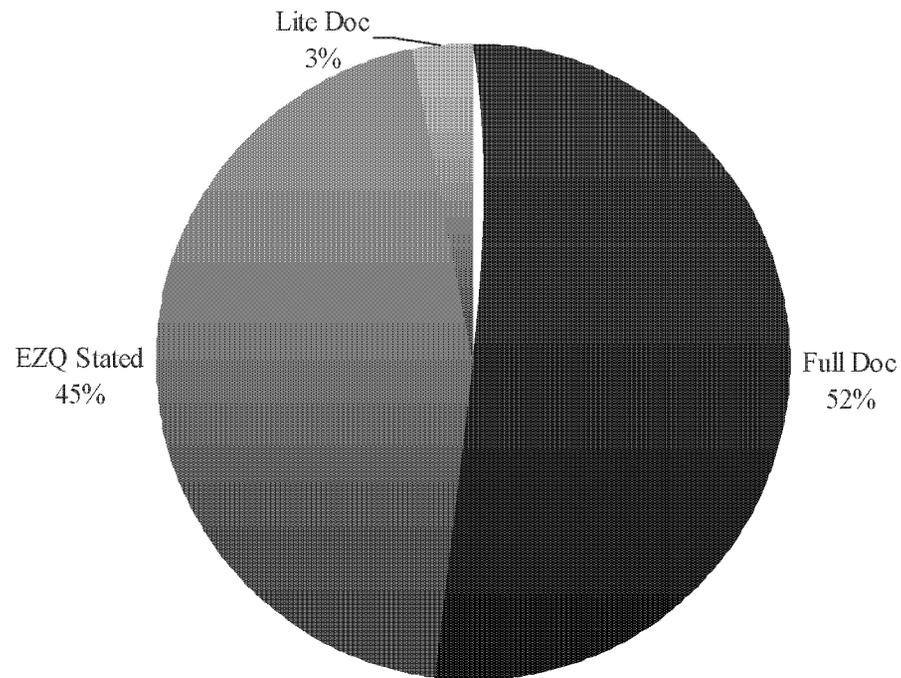
# Business Mix

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- ◆ Current production consists of 95% first lien mortgages
- ◆ Weighted average loan-to-value ratio of 78%
- ◆ Average loan size of approximately \$217,000
- ◆ Weighted average coupon approximately 8.40%
- ◆ Weighted average credit score over 622

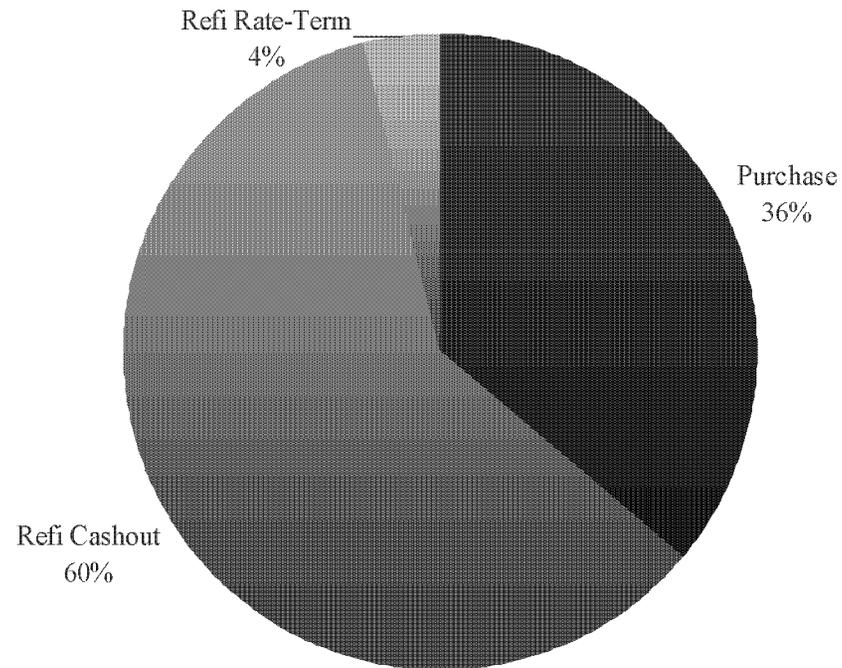
# Production by Income Documentation

Year-to-date July 31, 2006



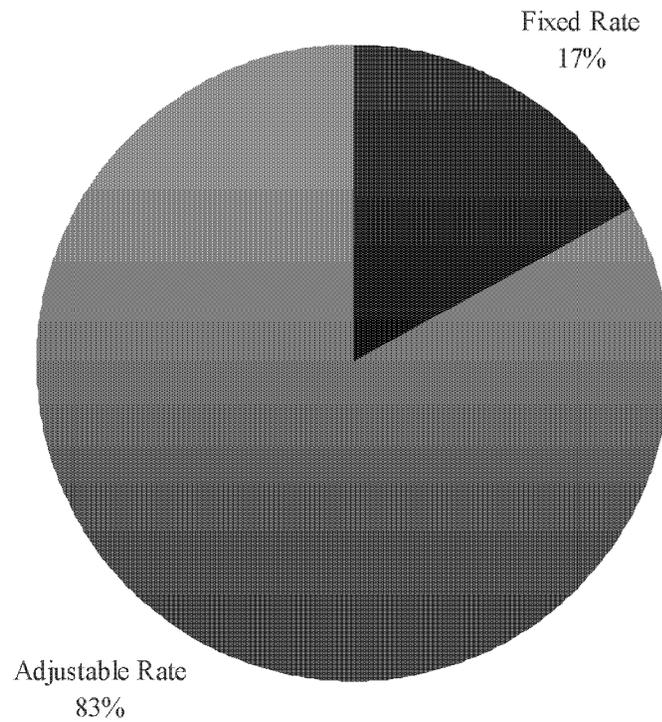
# Production by Purpose

Year-to-date July 31, 2006



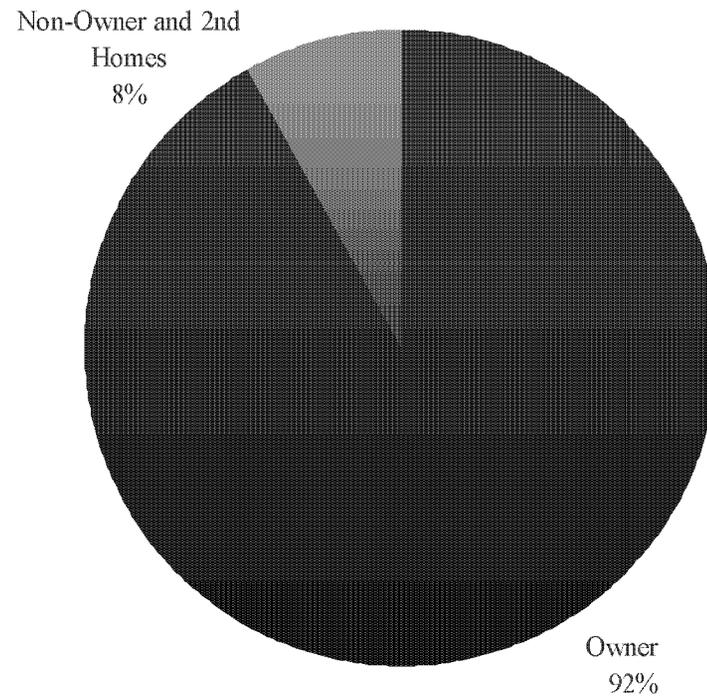
# Production by Product Type

Year-to-date July 31, 2006



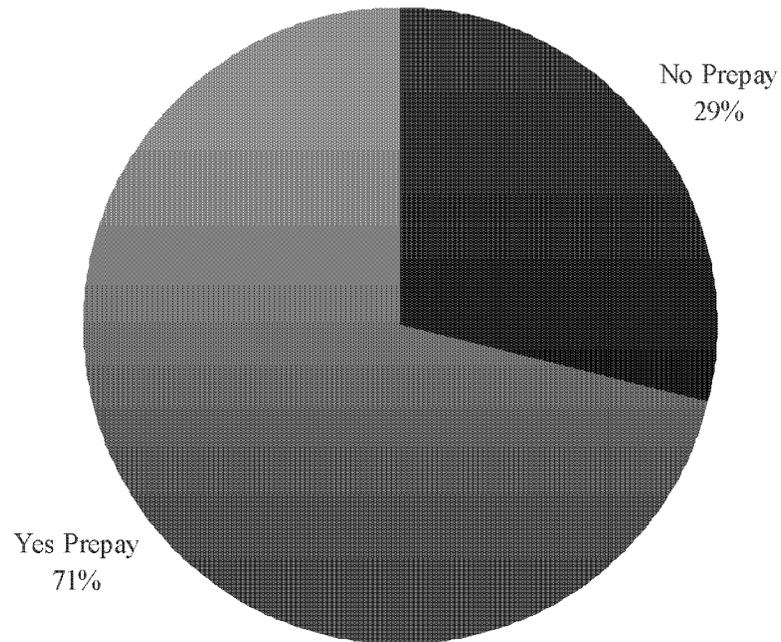
# Production by Occupancy

Year-to-date July 31, 2006



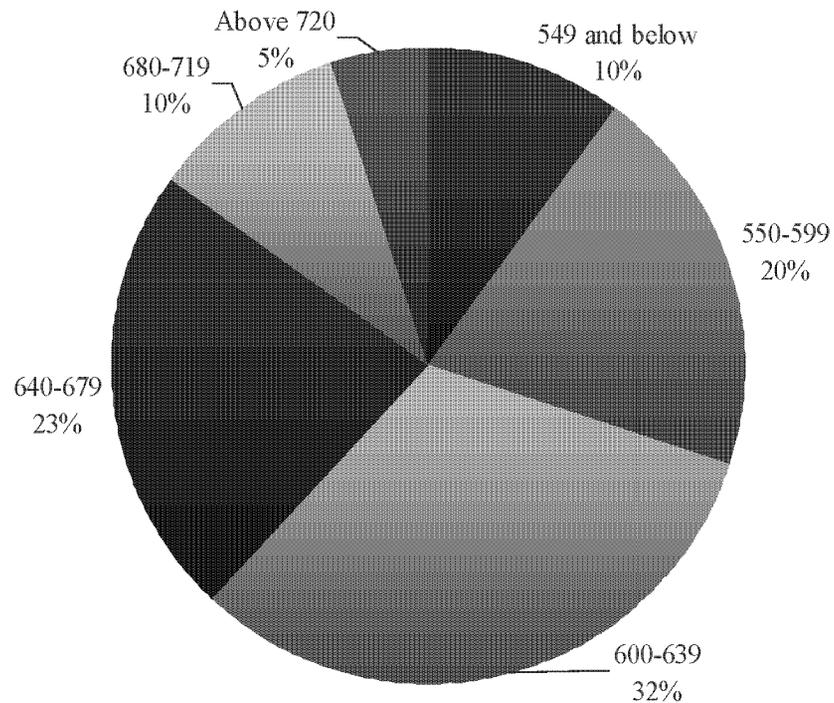
# Production by Prepayment Penalties

Year-to-date July 31, 2006



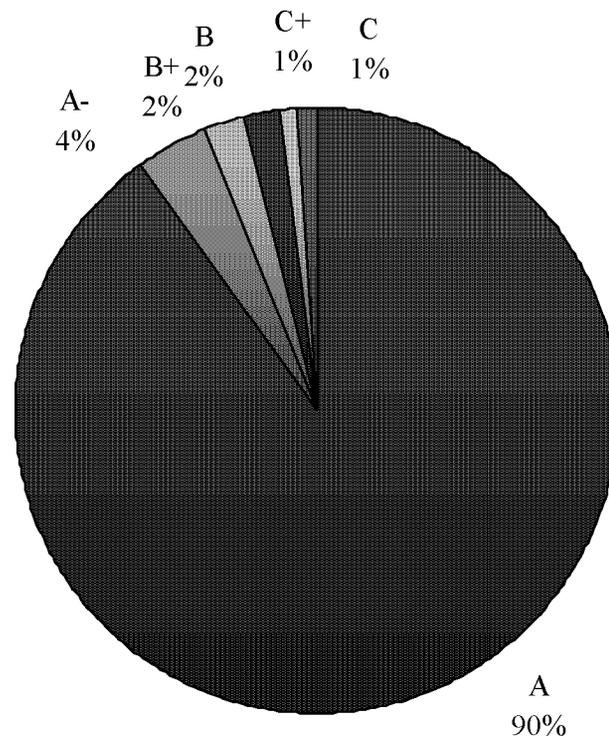
# Production by FICO Score

Year-to-date July 31, 2006



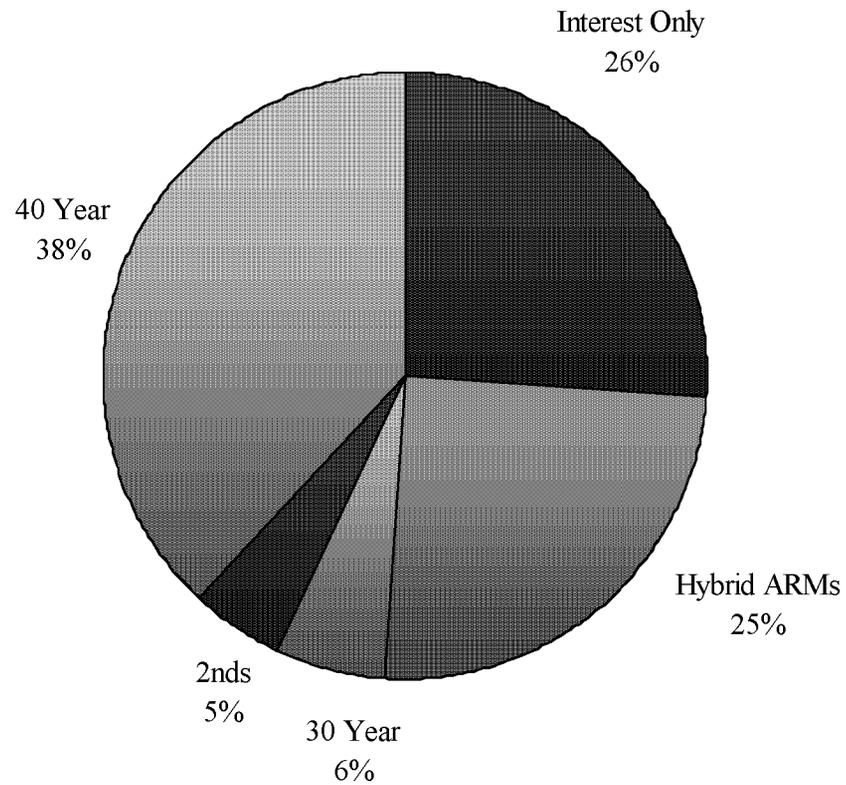
# Production by Credit Risk

Year-to-date July 31, 2006



# Production by Product

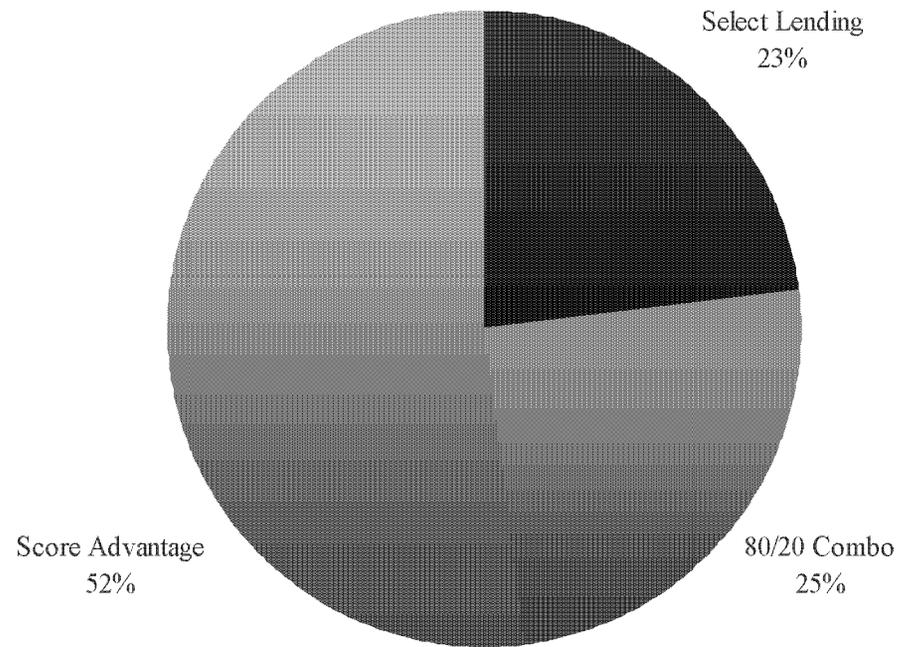
Year-to-date July 31, 2006



# Production by Program

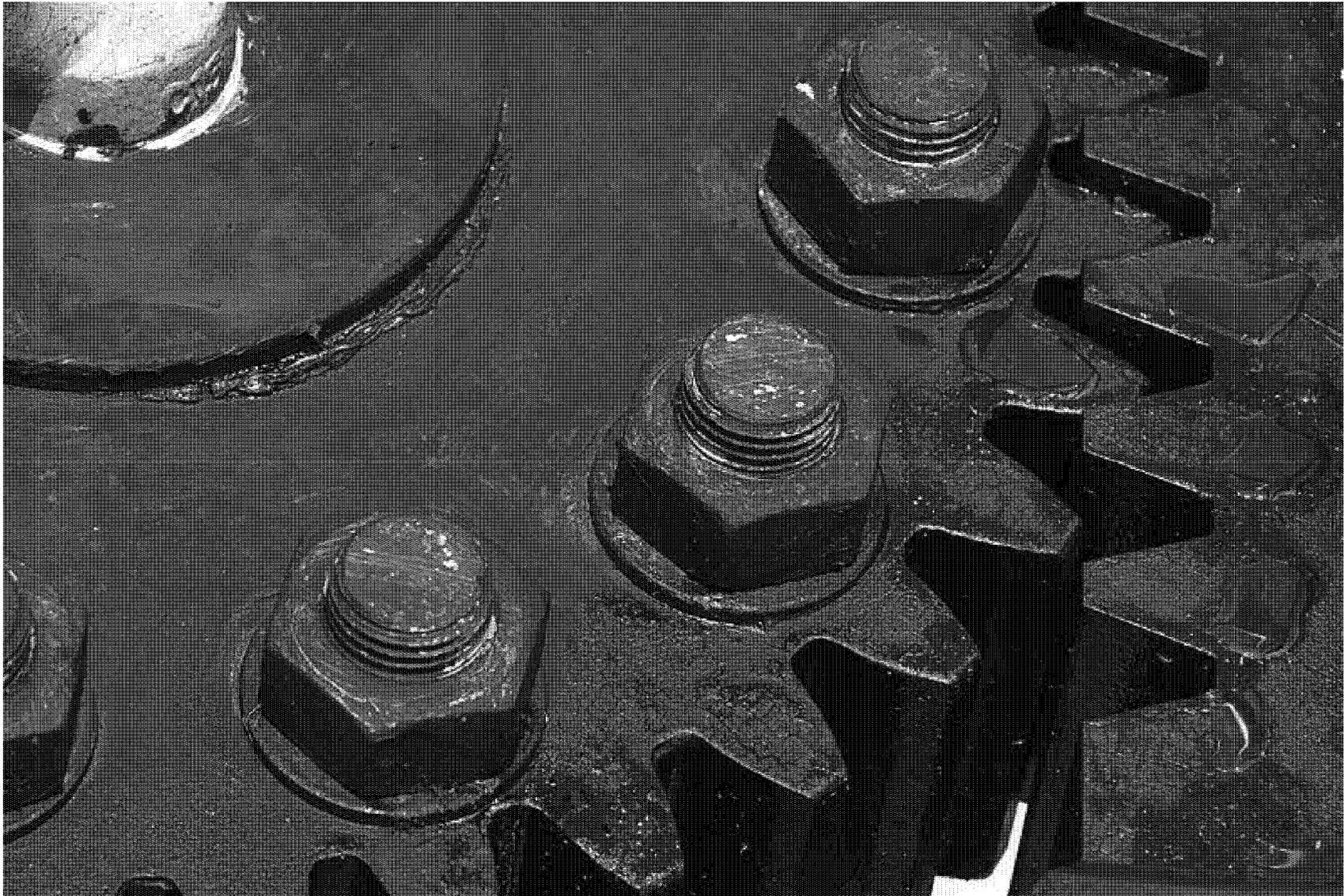
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Year-to-date July 31, 2006



# OPERATIONS

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# Operations Review

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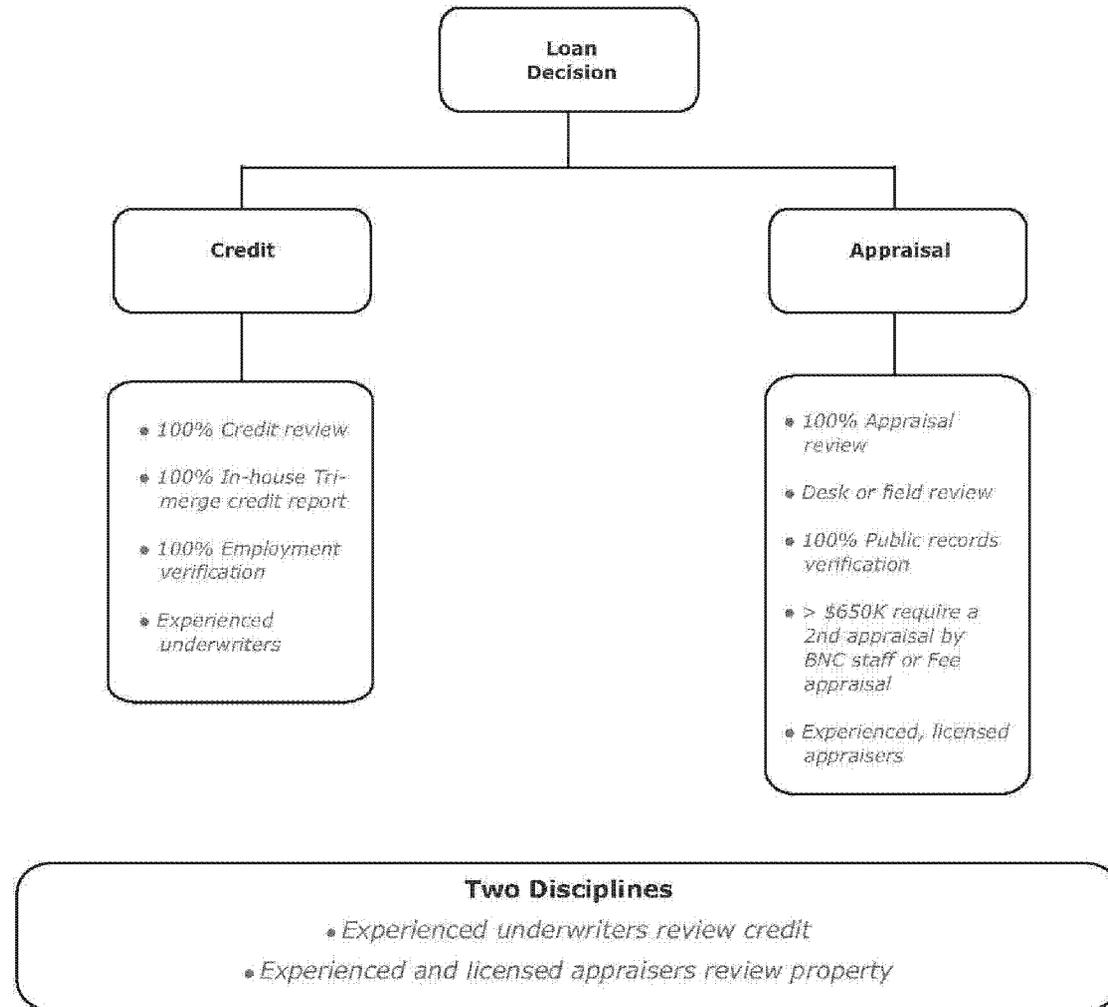
- ◆ Operational Philosophy
- ◆ Compliance, Lending and Regulatory Risk Management
- ◆ Underwriting Process
- ◆ Appraisal Process
- ◆ Flow Chart
- ◆ Quality Assurance Process
- ◆ Funding Process
- ◆ Secondary Marketing Process

# Operating Philosophy

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- ◆ BNC Mortgage Underwriting
- ◆ BNC Mortgage Credit Report
- ◆ BNC Mortgage Appraisal Review
- ◆ BNC Mortgage Loan Documents
- ◆ BNC Mortgage Disclosures
- ◆ Post Closing Quality Assurance Review
- ◆ BNC Mortgage Compliance
  - In-house legal counsel
  - State specific documentation
  - Automated through origination system

# Underwriting 2-Prong Approach



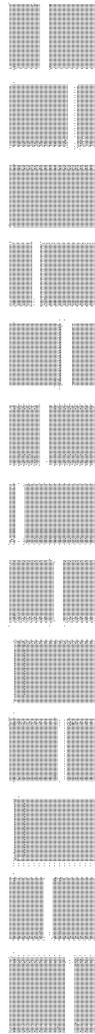
# Chinese Wall

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## Sales

- ◆ Sales Management
- ◆ Account Executives
- ◆ Account Managers

NO CREDIT AUTHORITY



## Operations

- ◆ Underwriters
- ◆ Appraisers
- ◆ Funders
- ◆ Document Preparation
- ◆ Compliance

DECISION MAKING AUTHORITY  
WITHIN DISCIPLINE

# Risk Management

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## Compliance | Predatory Lending and Regulatory Risk Management

- ◆ Managed by SVP Legal Counsel and Compliance (attorney with 20+ yrs. experience in Financial industry).
- ◆ Matrix Management with Lehman MCD Compliance and Risk Management Group.
- ◆ Implements and monitors compliance with Lehman and BNC Compliance policies.
- ◆ Monitors emerging and existing compliance regulatory changes.
- ◆ Makes compliance recommendations concerning business policy, procedure, or process making sure that Senior Management is aware of regulatory risks and exposure.
- ◆ Communicates with internal departments to support compliance with federal, state, and investor regulations including: TILA, ECOA, high cost home loans, fair lending regulations, HMDA, OFAC, RESPA, FDCPA, and others. This includes:
  - Weekly IT/Compliance meetings chaired by SVP Legal Counsel and Compliance
  - Compliance Alerts on all significant compliance changes
  - Monthly Compliance training to new hires through BNC University
  - Maintenance of Legal/Compliance Dept. website on Intranet
- ◆ Oversees remediation efforts regarding compliance issues found in QC audits, Internal Audit or OTS exams.
- ◆ Separate Fair Lending Team conducts quarterly analysis of HMDA data and communicates findings to Senior Management.
- ◆ Regular testing of new or complicated products/programs for compliance issues.

# Underwriting Process

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I. Underwriter logs out file and reviews using Empower LOS; benchmark of 5-7 files per day.

II. Checks for duplicate files in system.

III. Completes credit analysis:

- ◆ Reviews in-house credit report/FraudGuard report for credit score, derogatory credit; fraud/SSN alerts; identity issues; public records info, etc.
- ◆ Calculates total debts.
- ◆ Analyze results for trends.
- ◆ Loan sale data uploaded to Empower.

IV. Completes income/employment analysis:

- ◆ Examines income for accuracy/reasonableness based on doc level.
- ◆ Verifies employment via Internet, phone cert, etc.
- ◆ Calculates debt-to-income ratio.

# Underwriting Process cont.

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## V. Completes property/appraisal analysis:

- ◆ Checks property type, size and location for loan eligibility.
- ◆ Checks for condition of property, deferred maintenance, health and safety hazards.
- ◆ Checks for property transfers, listings in last 12 months.

## VI. Completes title analysis:

- ◆ Checks current vesting and title transfers in last 12 months.
- ◆ Checks for current liens, NOD's.
- ◆ Checks for easements, ingress/egress, encroachments, tax info, etc.

## VII. Checks for regulatory compliance:

- ◆ HMDA, ECOA, HOEPA, etc.
- ◆ State-specified laws – benefit analysis, high cost, etc.

# Underwriting Process cont.

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VIII. Underwriter gives disposition:

- ◆ Places conditions if approved.
- ◆ Gives reasons if denied.

IX. Underwriter gets second signature if exception, loan amount exceeds authority or denies file.

X. Underwriter completes file mods and clears conditions for Docs and Funding.

XI. Best Practices:

- ◆ Underwriter reviews cost vs. benefit to borrower at all credit grades, particularly at C+ and C levels.
- ◆ Underwriter's compensation not linked to production.

# Appraisal Process

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- I. Department utilizes the FNC Collateral Management System to assist in appraisal assignments:
  - ◆ Appraisals are uploaded into system by account managers.
  - ◆ A number of checks are run to see if property meets BNC's low risk criteria.
  - ◆ If property does meet low risk rules an automated review is completed and branch is notified of completed review. Account manager is able to print review and take to underwriter to sign off on original photos, and condition of property.
  - ◆ If property does not meet low risk guidelines appraisal is assigned to a staff reviewer for completion.
  - ◆ Staff reviewer pulls additional data (MLS or public records) and uploads information to the appraisal file where it will be stored.
    - Appraiser will complete a desk review if there is enough data available.
    - Appraiser will out source to a third party vendor if value is unable to be determined.
  - ◆ Review is completed and branch is notified.

# Quality Assurance Process

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## I. Prefunding Fraud and CIP Review:

- ◆ Any alternate Social Security, ID Theft Alert, Consumer Alert, OFAC, and FACTA Alerts that are found during the branch preliminary review of the Info 1 Credit Report that is generated on each new loan submission and Interthinx's (formally Sysdome) FraudGuard Report is forwarded to the Prefunding Fraud Department for clearance. Research is done by accessing various public records. Loans may be cleared or declined. Declined loans may be referred to Legal for SAR review.

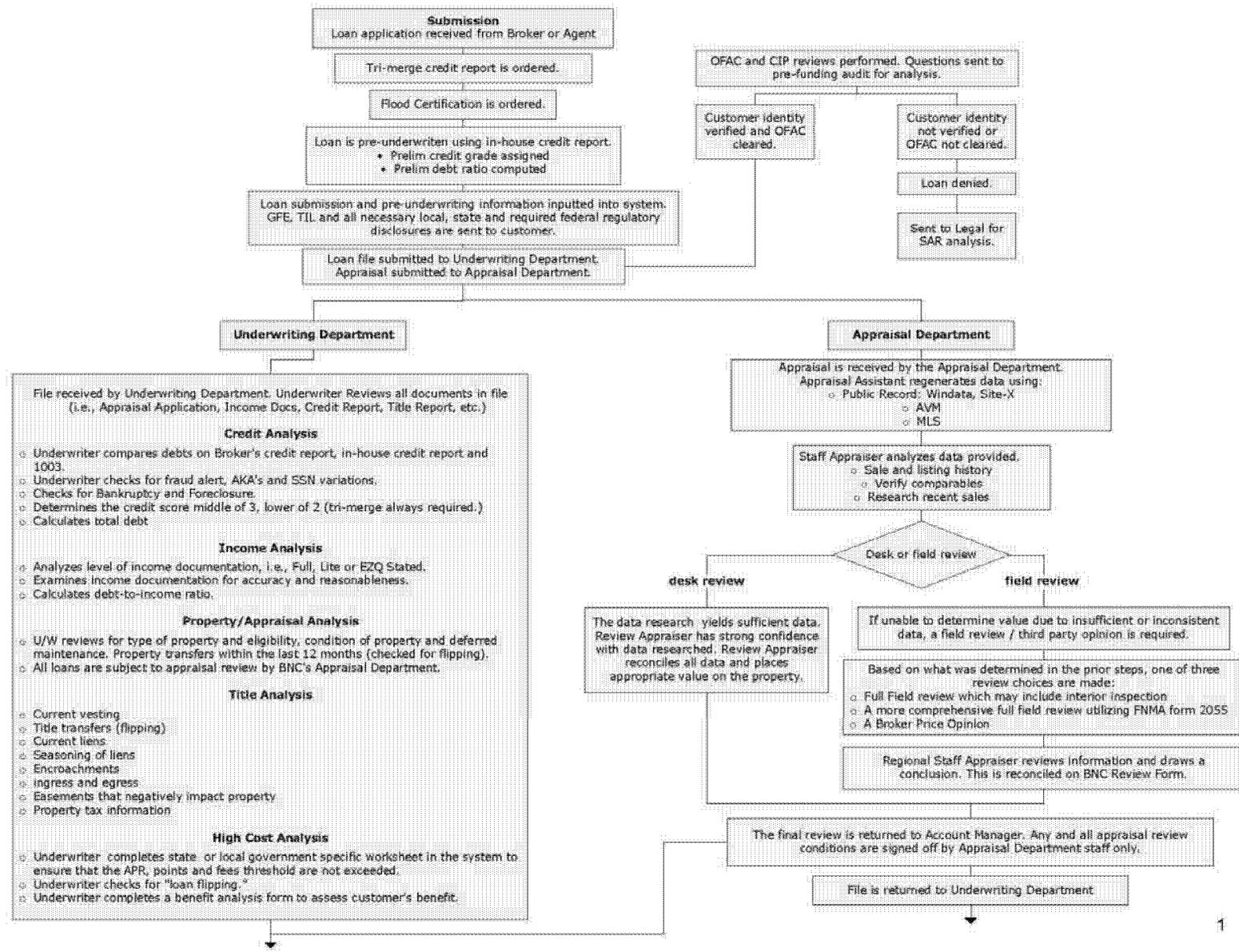
## II. Customer Service:

- ◆ This department serves as the liaison between Option One, BNC, and the borrowers.

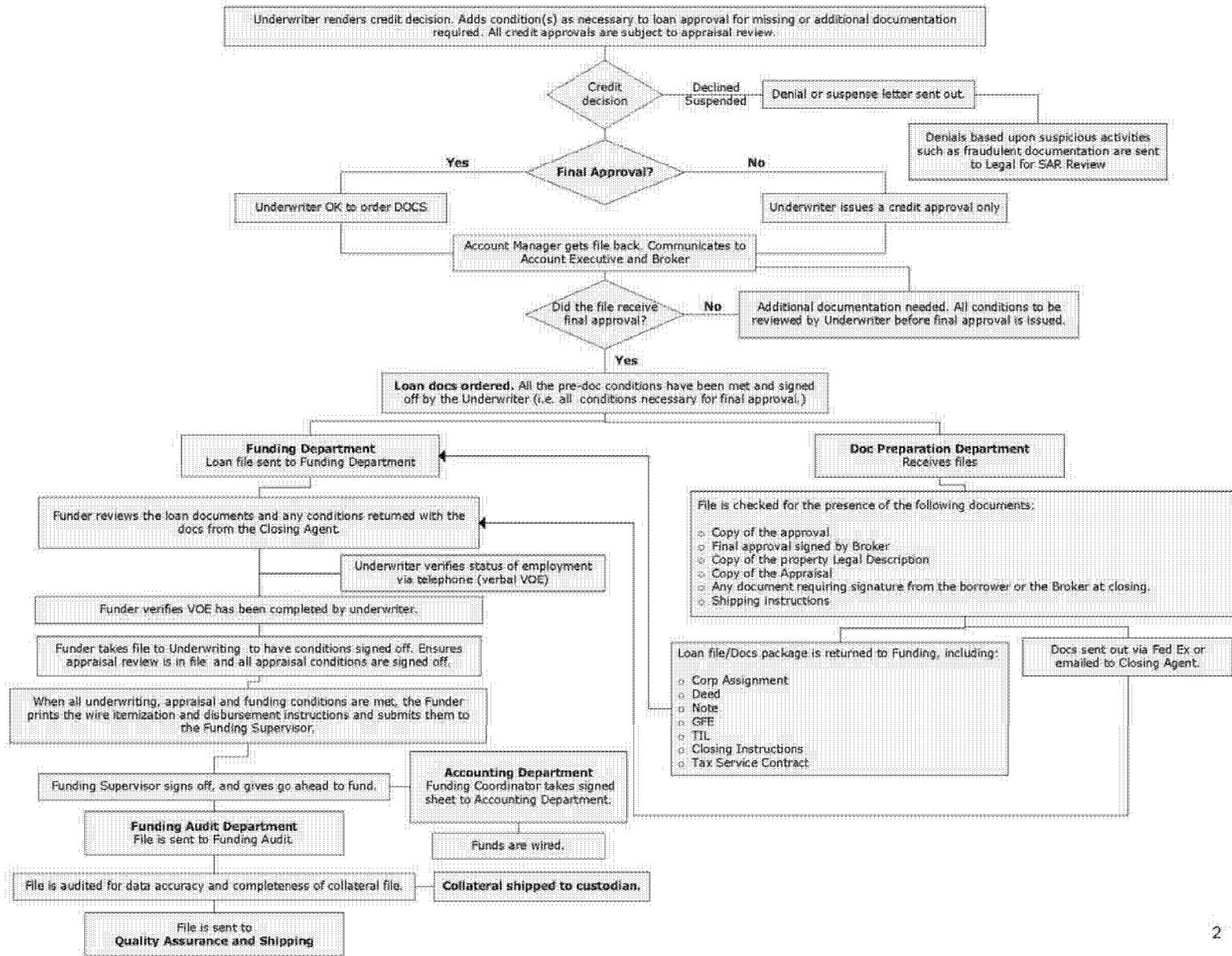
## III. Quality Control:

- ◆ Loans for the Post Funding Random and Targeted Audits are audited by this department. Loans are audited to BNC guidelines in addition to being retested for compliance to State High Cost requirements and to ensure loans do not fall into Section 32 using the final figures from the HUD1. We use a software called ACES (Automated Compliance Evaluation System) to select loans and audit.
- ◆ A 5-10% sample is pulled each month.

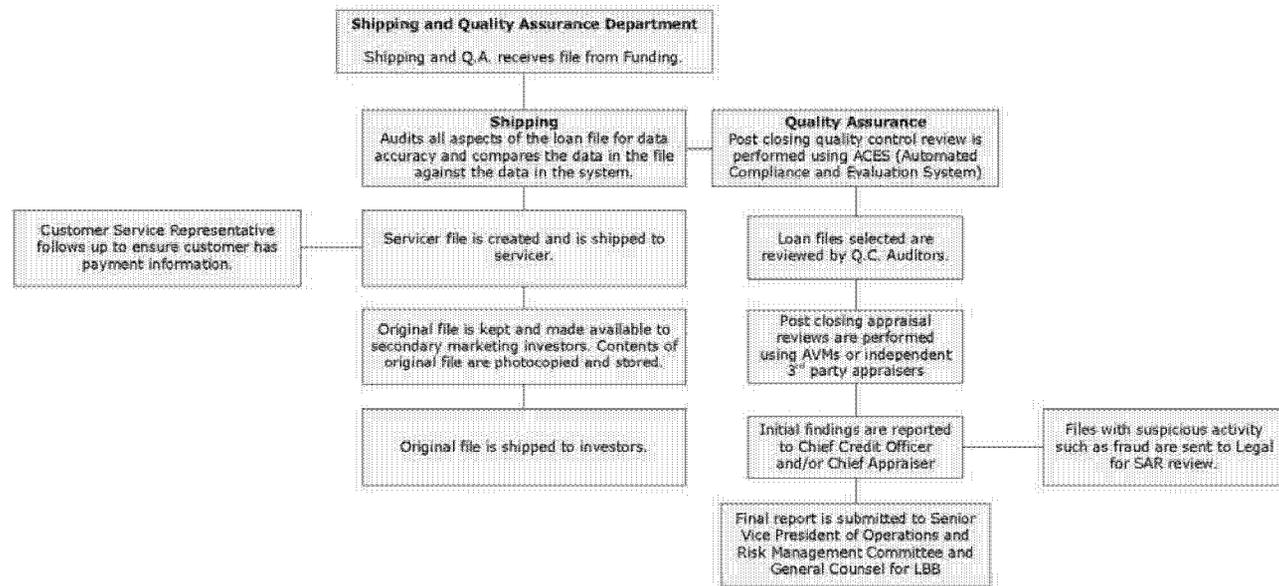
# BNC Loan Process Flow Chart



# BNC Loan Process Flow Chart cont.

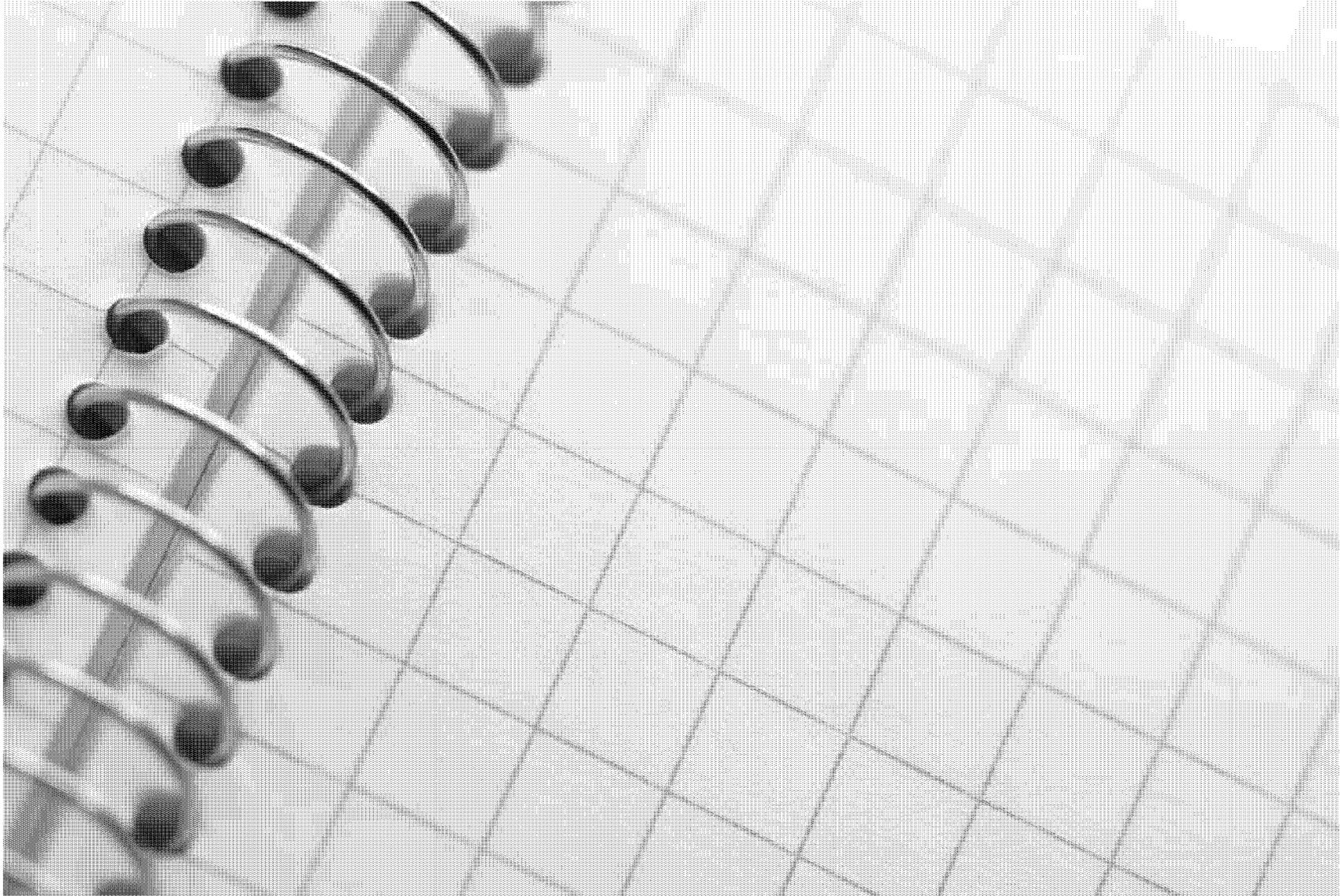


# BNC Loan Process Flow Chart



# BNC LEARNING AND DEVELOPMENT

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# BNC Learning and Development

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- ◆ BNC University - Classroom Training at Corporate
  - Boot Camp - Course designed for experienced Sales people (Mortgage Trainees) with no Mortgage Industry experience.
  - BNCU - Course designed for Mortgage Trainees, Sales Trainees and Account Executives new to BNC. Includes Fair Lending training.
  - Annual Sales Conference
  
- ◆ Online Training
  - Compliance Modules - Courses for all employees
  - Product Knowledge Modules - Quizzes for Account Executives, Account Managers and Underwriters
  - Credit Modules - Courses for Account Executives and Account Managers
  - Sales Modules - Courses for Account Executives and Account Managers
  
- ◆ Teleconference Training
  - Account Manager Orientation - Call in training for new Account Managers and Branch Receptionists
  - BNCU Radio Talkshow - Call in training for Account Executives, Account Managers and Underwriters

# BNC Learning and Development cont.

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## ◆ One-on-One Training

- Regional Sales Managers provide Sales and Product training for Account Executives.
- Regional Account Managers provide Product training for Account Managers.

## ◆ Broker Training

- Learn.Sell.Fund Broker Conferences - Conference delivering Sales concepts tailored for the Mortgage Broker and Loan Officer.

## ◆ Coming in 2006

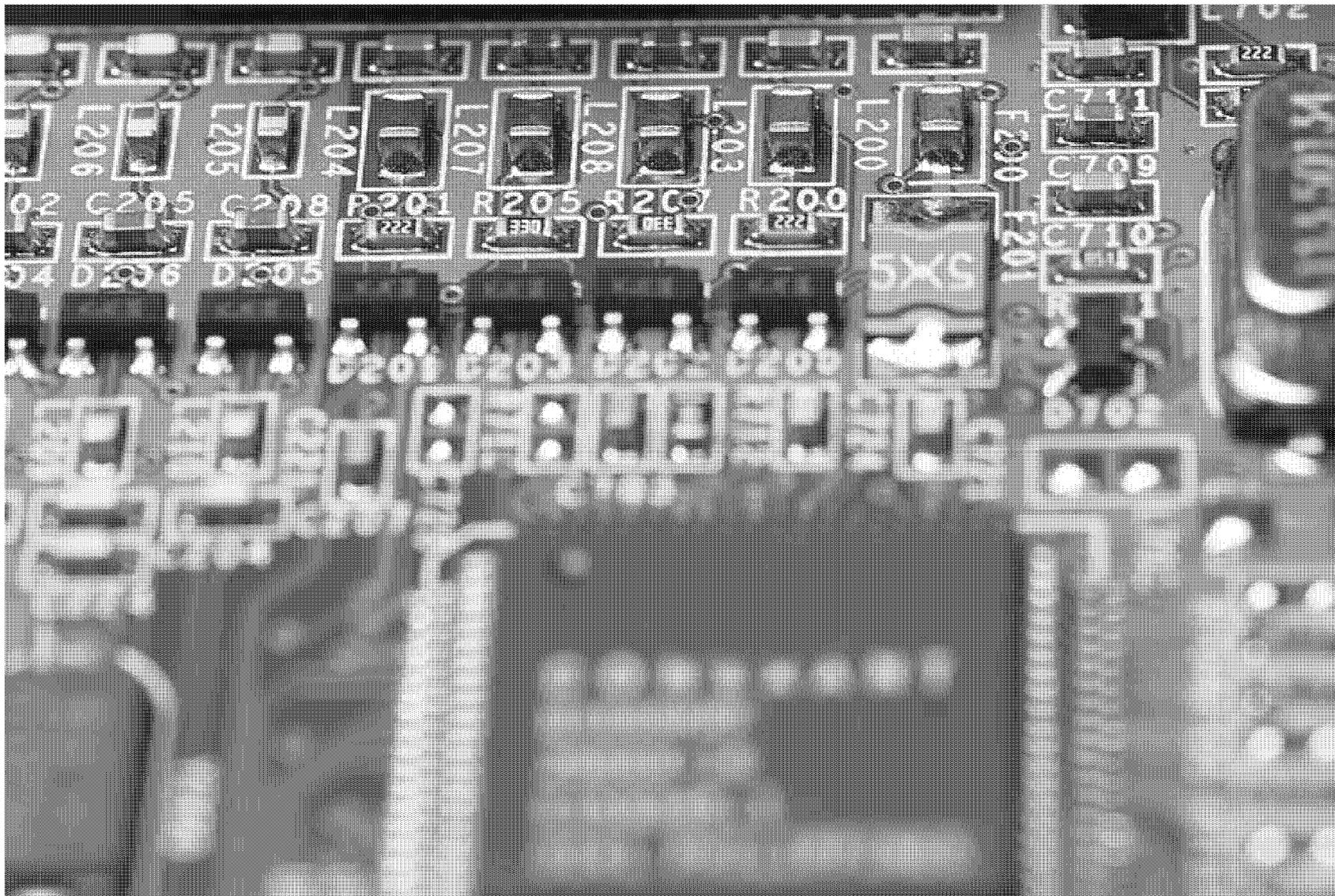
- Intro to Residential Lending - Class geared for Mortgage personnel new to the Industry.
- Formalized training for Funders, Underwriters and Quality Control

## ◆ Corporate Training

- Lehman Leadership and Management Training
- Respect in the Workplace
- Employee Coaching and Performance Management
- Management and Supervision

# OVERVIEW OF BNC TECHNOLOGY GROUP

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# IT Overview

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- ◆ Lehmanized Infrastructure effective December 1, 2005
  - Secure environment
  - Standard desk top with push down applications
  - All updates and patches are push down and virus checked
  - Secure tocket from offsite location
  - Redundant locations for back up data centers
- ◆ Matrix Management with Lehman Senior IT Leadership
- ◆ Senior Leadership
  - Fred Khadem – Co-CIO, 20 years IT mortgage industry and infrastructure experience
  - Brian Leimbach – Co-CIO, 20 years IT telecommunication and infrastructure experience
- ◆ Management and Information Systems Technology Team
- ◆ 7 Organizational Groups
  - Application Development – 1 vice president and 13 staff
  - Business Intelligence / Reporting – 1 vice president and 3 staff
  - Project Management Office – 1 vice president and 11 staff
  - Loan Management System – 1 vice president and 11 staff
  - QA / Test – 1 manager and 4 staff
  - Enterprise Infrastructure – 1 vice president and 25 staff
  - Business Continuity Group – 1 vice president and 1 staff

# Key Systems and Platforms

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- ◆ Server Based Platform
  - HP Proliant Servers, Cisco Routers & Citrix Metaframe Presentation Server v.4 for branch connectivity
- ◆ Microsoft Work Environment
  - XP Professional
  - Exchange 2000
  - Office 2003
  - SQL Server 2000
- ◆ Accounting Software – Mas90
- ◆ LOS Software – FNIS Eastern - Empower

# Key Systems and Platforms

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## **Eastern Software**

- ◆ Empower LOS System
  - 32 Bit Client Server product
  - Multi-Dimensional workflow and “rules based” engine
  - Long term strategic reliability
- ◆ Beta Test – BNC Mortgage was the mortgage industry beta tester
  - Middle tiers product – WEB access to Empower functionality

## **Empower LOS Software**

- ◆ Acquired by Fidelity National Information Services
  - NASDAQ: FNIS
- ◆ Customized to BNC Mortgage’s Workflow:
  - Loan Processing
  - Underwriting
  - Regulatory worksheets built-in and state specific high cost lending
  - VMP loan documents and forms
  - Credit reports built-in using LandAmerica

# Key Systems and Platforms

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## **Other Software Applications**

- ◆ BNC Mortgage
  - In-house reporting and data analysis
  - Work Bench – loans in progress
  - Web reports for AE’s – Pipeline tracking
  - Blackberry – ELS Notification
  - Blackberry – Look up loan status and conditions
- ◆ Broker Tools
  - Web reports for Brokers – Pipeline tracking
  - Broker management system
  - “ELS” – Electronic Loan Submissions
- ◆ Fair Lending WIZ – Compliance with Fair Lending
- ◆ CRA WIZ – HMDA
- ◆ CALYX Point
- ◆ ACES – QA
- ◆ Source Corp – Imaging funded loans
- ◆ eLynx – Secured Electronic Document Delivery/Confirmation
  - Loan Closing Document Delivery to Closing Agents
  - Advanced Disclosure Documents (upcoming) Delivery to Borrowers

# Key Systems and Platforms

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## **New Initiatives**

- ◆ FNC Collateral Management System
  - Reliable, regulatory compliant appraisal review automation system
  - Generally Accepted Appraisal Rules Based system to cover compliance and fraud / risk mitigation
- ◆ GloCent – Enterprise Commission and Incentive management
  - Sales Commission Tracking, Calculation & Reporting
  - Commission / Incentive Management & Administration
- ◆ AU – Automated Underwriting System
- ◆ Enterprise Business Intelligence
  - Operational Data Source (ODS)
  - Data Warehousing & Analytical Tools
  - Data Marts
- ◆ Document Imaging