Prospectus

Foreclosure Forecast, 2008

- **Projections From New SMR Model Applied To Most Individual U.S. Debtors**
- **National, Metro Area, & County Forecasts: Completed Foreclosures In 2008 Vs. 2007**
- **Forecasts For Each Of The 154 Largest Originating Lenders**

Important Information about a new SMR Research Study

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SUMMARY OF THE STUDY

Completed foreclosures on owner-occupied homes are likely to rise by 22% in 2008 over 2007.

A continued fall in home values could cause an even larger increase. Rising values – or new borrower "rescue" plans – could cut the number.

Our forecast is a negative one, but not nearly as disastrous as some of the "Armageddon" opinions other analysts have expressed.

Our forecast is not an opinion. It is the statistical result of our application of a new, accurate, multiple regression model to each of 33.7 million owner-occupied debtors as of November, 2007.

Clients should not be surprised by a rising foreclosure prediction.

Home price depreciations always put some borrowers "under water," with home values no longer as large as their mortgage and home equity debts. More delinquent borrowers then flow through to completed foreclosures. In prior regional price depreciations, foreclosures typically spiked dramatically – not reaching a peak until after prices bottomed out.

This research study, more than 275 pages, includes not only our national forecast for 2008, but also separate forecasts for most major metro areas and for 154 large lenders, based on loans they originated and that are still outstanding.

Some of the more notorious foreclosure hot spots, like Detroit and Cleveland, will likely show some improvement in 2008.

Central California cities look bad for 2008. Florida foreclosures will worsen. Las Vegas likely will be the worst big city in 2008 foreclosure rates, while San Francisco, greater Philadelphia, and several northeastern cities look good.

Among the 10 largest U.S. lenders, none are forecast to have significantly above-average foreclosures on loans they originated via retail and broker channels. But after the top 10, a number of other lenders are likely to show high foreclosures. Some, already bankrupt or closed, will no longer be around to see the results.

Piggyback home equity loans look extremely risky for 2008. Free-standing home equity loans and credit lines will be largely free of trouble.

This study is SMR's first dedicated solely to foreclosures. This Prospectus describes the study. An Order Form is enclosed or available on our web site. Thanks.

HIGHLIGHTS

The New SMR Foreclosure Forecast System

One lesson taught by the mortgage credit crisis is that generalized consumer credit scores fail to predict absolute numbers of foreclosures. **Credit scores do not use borrowers' current combined-loan-to-value (CLTV) ratios, a key to foreclosure prediction when home values weaken.**

SMR has used its public records databases, covering a majority of all U.S. homes with debt, to create a new multiple regression model. It scores home owners for their likelihood to undergo a completed foreclosure.

This model utilizes nearly all key predictors of trouble: Current estimated CLTV ratios, subprime borrower status, ARM versus FRM loans, timing for ARM reset dates, prior geographical concentrations of risk (pertinent in part to fraud), and lots more.

Section II of the study explains the model in detail, and shows test results on both owner-occupied and non-owner-occupied homes.

This study used the new model, applied to home owners in November, 2007, to forecast national, metro area, county, and lender foreclosures for 2008.

The same model can be applied by our individual clients to identify highest-risk borrowers and to estimate losses. Doing this, clients may reduce foreclosures by identifying the riskiest customers, in compliance with new federal mandates. Individual clients may not use the system to take adverse actions or to make approval decisions on new loans.

National Data

SMR applied its new foreclosure model to each of 33.7 million owner-occupied home owners in November, 2007. Aggregating results on all of them, we have forecast a 22% increase in completed foreclosures for 2008.

The Introduction to the study shows national results in detail – including **dollars of loans** in jeopardy and implications for **net loan losses** due to foreclosure.

The same section explores how our forecast would change under scenarios in which home prices either rise by 5% or fall by 5% in 2008.

We also look in the Introduction at the **split personality of home equity loans and lines of credit.** Using actual completed foreclosures in 2007, we show a dramatic difference in foreclosures on customers with piggyback home equity loans versus free-standing home equity products.

HIGHLIGHTS (continued)

Drivers Behind Foreclosures

Section IV of this study provides 20 pages of plain-English analysis of the drivers behind foreclosures and how they may soon change.

We begin with the latest compilations of bad-loan data from the nation's bank holding companies and thrift institutions, showing the degree of recent increase in highly delinquent and net charged off mortgages – by type of loan – from federal regulatory reports.

These tables are interesting for multiple reasons. For instance, defaults and delinquencies on junior-lien loans are lower if they have adjustable rates – just the opposite of what we see on first-lien mortgages. So, it's not ARM status that counts, but rather underwriting and product features.

The same section looks at the degree to which household incomes are now catching up with home values, deflating the housing bubble that caused the foreclosure mess in the first place.

Local Market & Lender Data

In terms of sheer page count, most of this study focuses on metro area and lender-specific foreclosure projections and details.

We had the addresses of all 33.7 million borrowers studied, so we aggregated them to county and then to metro area levels.

Results for each of 193 large metro areas are shown in detail – numbers and dollars of loans and borrowers likely to be foreclosed, with first mortgage and home equity loan breakouts and counts of SMR-scored debtors by score bands. **Nearly all major cities are included:** New York, LA, Chicago, Miami, Houston, Dallas, Seattle, Philly, Phoenix, Vegas, Detroit, Boston, Cleveland, and more.

Looking at lenders, we are able to compute likely foreclosures on loans they originated and that are still outstanding. The study does not include data on risks posed by mortgage securities, and we do not know the risk mitigation steps that any lender took on any loan. We also don't have data on correspondent loans by the name of the purchasing lender.

Still, if you rank-order the 154 big lenders we cover by likely 2008 foreclosures on loans they originated, you get telling results.

Nearly all lenders at the worst end of this list are already bankrupt, closed, curtailed, or have announced big spikes in defaults. Nearly all lenders at the best end of the list are doing fine.

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Profiles show numbers and dollars of first-lien mortgages and home equity loans sampled in November 2007, plus numbers of customers sampled. We project numbers and dollars of completed foreclosures for 2008 by loan type, plus percentages of numbers and dollars of loans projected to be foreclosed. We include the percentage of each lender's customers by SMR foreclosure score band, such as the percent scored 1-250, 251-500, etc. Section II explains the scores. Big lenders now closed are included among the 154 profiled. We cover loans originated by the lender (retail and broker production, not correspondent loans) and still outstanding. SMR does not have or report on any risk mitigation steps taken with any loan, or whether the lender still owns the loans.

A Special, One-Time Study

Since 1986, SMR has produced regular research studies on the mortgage and home equity loan markets. These are produced annually or semi-annually.

But from time to time, SMR also issues special reports on timely subjects on home loan markets. This study on foreclosures is one of them. If enough clients show interest, we may repeat this study in the future.

Our special reports, like this one, are sent automatically to clients who sign up for SMR's Home Equity or Mortgage Research Suite services. The Suite services provide at a single discounted price all of SMR's studies, data products, and county-level lender market share reports for a full year.

For more information about the Home Equity or Mortgage Research Suites, go to our web site, **www.SMRresearch.com**, click on the Mortgage or Home Equity subject buttons, and then on the Suite service.

SMR Predictive Scoring Services

This study utilized the huge databases SMR has on U.S. home owners, updated monthly. **But our main use for these databases is predictive modeling for individual clients.**

We use multiple regression models to create scores that predict which home owners will soon obtain mortgage refinances and home equity loans. **The purpose of these scores: to identify new loan prospects for direct marketing** – or to append loan propensity scores to lists you already have, such as lists of depositors, credit card customers, etc.

The new Foreclosure Forecast System (FFS) also creates numeric scores, this time to predict the risk of foreclosures on individual borrowers.

An FFS Market Intelligence Report evaluates risk on a portfolio you supply. We also append scores to your records and return them to you.

The dual purposes of FFS are to understand likely overall foreclosure results and to identify borrowers most at risk, so that you can try to work with them early-on to prevent a foreclosure from occurring. **We believe this system to be far more predictive than others based on general credit scores.**

FFS reports may not be used to take adverse actions with existing borrowers, or to make new loan-granting decisions, in accordance with the Fair Credit Reporting Act.

FFS project fees are based on list sizes and programming time. For more information, call us at 908-852-7677 and ask about a Foreclosure project.