

PROSPECTUS

Piggyback Mortgage Lending

- **The Surge In Piggybacks: 2001 - 2004**
- **Piggyback Production Of Major Lenders**
- **Piggyback Popularity By State & County**
- **Home Purchase & Refi Break-Out Data**
- **Combined LTV Ratios Of Piggybacks**
- **Results Of A 21.5 Million-Loan Sampling**

Important information about a new SMR Research study.

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SUMMARY

Piggyback lending is hot – and controversial.

With piggybacks (two-loan deals, one senior lien and one junior), lenders get bigger balances and help borrowers avoid paying for private mortgage insurance. Yet, piggybacks have very high combined loan-to-value (CLTV) ratios, raising serious concerns about risk.

Relatively little research has been done on this subject. **But now, we have answers to key questions that have swirled around piggybacks for years:**

- **From a huge sampling of 21.5 million loans, we have calculated numbers and dollars of piggybacks done from 2001 through mid-year 2004.**
- **We have gauged in each year what percentage of home purchases had piggyback structures. We've done the same with refinances.**
- **For each of 100 large lenders, we show what percentages of their purchase and refi loans recently involved piggyback transactions.**
- **We have calculated where piggybacks are most popular, by state and county, spanning 37 states from which our loan sampling was derived.**
- **We have evaluated the combined loan-to-value (CLTV) ratios on piggybacks and analyzed the implications for industry credit risk.**

The study is filled with important findings, some of them surprising. To wit:

- 1. Nearly 42% of all home purchase loan origination dollars in 2004 involved piggyback deals, more than double the level of 2001.**
- 2. Piggybacks are becoming far more popular on refinancings, too.**
- 3. Some big lenders now do a large majority of their home purchase volume in piggybacks. But others do very few, no doubt due to the risk.**
- 4. Nearly all piggybacks have CLTV ratios above 80%, the long-time limit for credit safety. If you add conventional piggybacks to FHA/VA loans, plus single-loan high-LTV deals, you find that a large majority of all homes purchased with financing in 2004 had very high CLTV ratios.**

The real work in this data study involved processing of the 21.5 million transactions we used, sourced from lien filings at county courthouses. Results and analysis span 93 pages.

This Prospectus tells more about the study. Use the Order Form enclosed with our Home Equity Outlook Prospectus to get the report. Thanks.

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