

**MEMORANDUM**

**TO:** File No. DF Title IX - Asset-Backed Securities

**FROM:** Jay Knight  
Attorney-Adviser  
Office of Rulemaking  
Division of Corporation Finance  
U.S. Securities and Exchange Commission

**RE:** Meeting with the Genworth Financial – US Mortgage Insurance

**DATE:** October 20, 2010

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On October 20, 2010, Paula Dubberly, Katherine Hsu, Rolaine Bancroft, and Jay Knight of the Division of Corporation Finance and Eric Emre Carr of the Division of Risk, Strategy and Financial Innovation met with the following representatives of Genworth Financial – US Mortgage Insurance: James Bennison, Carol Bouchner, and Duane Duncan. Among the topics discussed was the case for private mortgage insurance to be within the definition of qualified residential mortgage in any rule promulgated pursuant Title IX, Subtitle D, Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Handouts are attached to this memorandum.

Attachment

### **Attending the Genworth/SEC meeting**

Jim Bennison, SVP of Capital Markets  
Duane Duncan, SVP of Government & Industry Relations  
Carol Bouchner, Regulatory Policy

### **Agenda**

- Discussion of the Qualified Residential Mortgage exclusion to Credit Risk Retention in Title IX of Dodd-Frank.
- Presentation of Supporting Data – Vertical Capital/Core Logic.



Genworth®  
Financial

# Risk Retention and Qualified Residential Mortgage

U.S. Securities and Exchange  
Commission

October 20, 2010

# Risk Retention and Qualified Residential Mortgage

- **Dodd-Frank Wall Street Reform and Consumer Protection Act Creates New Obligation for Securitizers to Retain Interest in Securitized Assets**
- **Bill Directs Regulators to Exempt Qualified Residential Mortgages (QRM)**
- **Regulators Must Define a QRM Taking into Consideration Underwriting and Product Features That Result in a Lower Risk of Default Such as:**
  - Documented and verified financial resources
  - Standards for: a) residual income after meeting all obligations; b) ratio of housing payment to income; c) ratio of all installment payments to income
  - Standards and features that mitigate the payment shock of ARMs
  - Mortgage guaranty insurance (or other insurance or credit enhancement) obtained *at the time of origination* to the extent such insurance/credit enhancement reduces the risk of default.
  - Prohibitions/restrictions on balloon payments, negative amortization, prepay penalties, interest only & other similar high risk features

## Data Clearly Demonstrates:

- A Qualified Mortgage standard mitigates the risk of default
- On low down payment loans, Insured Loans have a lower risk of default than comparable Piggyback (uninsured) Loans

# Qualified Mortgage Study

# VERTICAL CAPITAL SOLUTIONS



## Historical Performance of Qualified vs Non-Qualified Mortgage Loans

February 2010

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# Scope of Project

- ◆ Vertical Capital Solutions (“VCS”) working in conjunction with First American Core Logic (“FACL”), performed an unbiased comparison of performance statistics between two populations of conventional loans (Qualified and Non-Qualified).
- ◆ The comparison segregated the loans by origination year, Loan-To-Value (“LTV”), and presence of Mortgage Insurance (“MI”) as a way to further examine the findings.
- ◆ In addition, the data was segregated by the 25 Metropolitan Statistical Areas (MSA's) with the largest number of originations between 2002 and 2008.
- ◆ The criteria used for the determination of the Qualified pool is outlined below (the “Qualified Criteria”):
  - Debt-To-Income  $\leq$  41%;
  - 7/1 ARM's & Greater or Fixed Rate;
  - Term  $\leq$  360 months;
  - No Balloon;
  - No Interest Only;
  - No Negative Amortization;
  - Full Documentation; and
  - If the Loans had a LTV  $>$ 80% it must carry MI

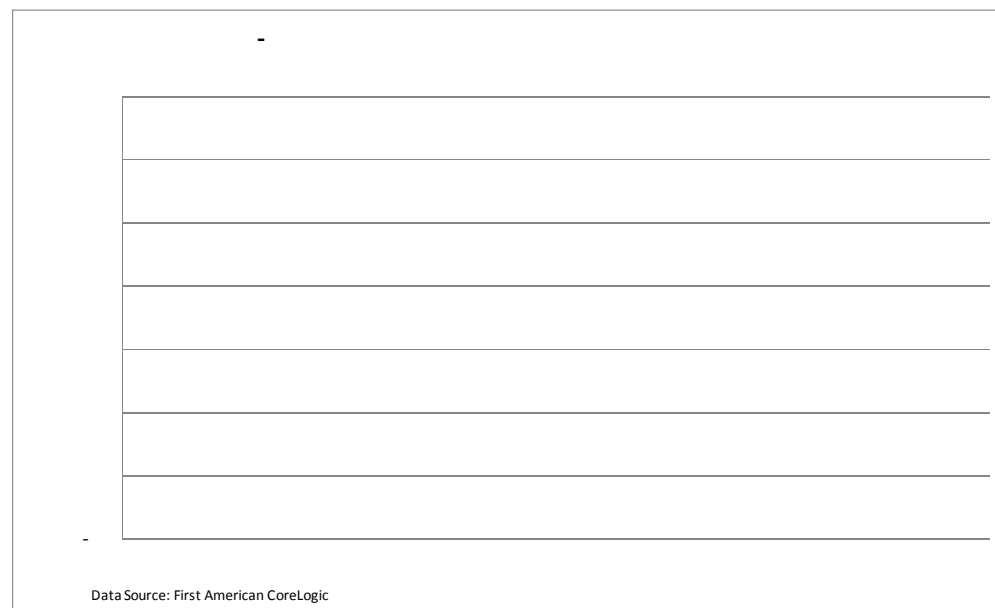


# Methodology

- ◆ Developed performance statistics by vintage, LTV, MI and the Top 25 MSA's by utilizing FACL's Servicing Database (the "Servicing Database").
- ◆ The performance statistics were compiled as of 11/30/2009.
- ◆ The overall population consists of 37 million conventional loans originated between 2002 and 2008 (the "Loan Population")
- ◆ The Loan Population was then defined into two categories Qualified and Non-Qualified
- ◆ The Qualified Criteria was chosen to most closely match the criteria provided with the data available in the Servicing Database (**the "Qualified Pool"**).
- ◆ The non-qualified population consists of loans where all necessary data points are present, but one or more of the Qualified Criteria were not met (**the "Non-Qualified Pool"**).
- ◆ The remaining population (**the "Qualification Unknown Pool"**), not reported, consists of loans where the necessary data points were not all present and therefore qualification could not be determined.
- ◆ The Servicing Database does not report the liquidation type. However, the loan status at the time of liquidation is tracked.
- ◆ Non-performing loans were any loans currently 90+ days delinquent or had defaulted at the time of liquidation.

# Summary of Results

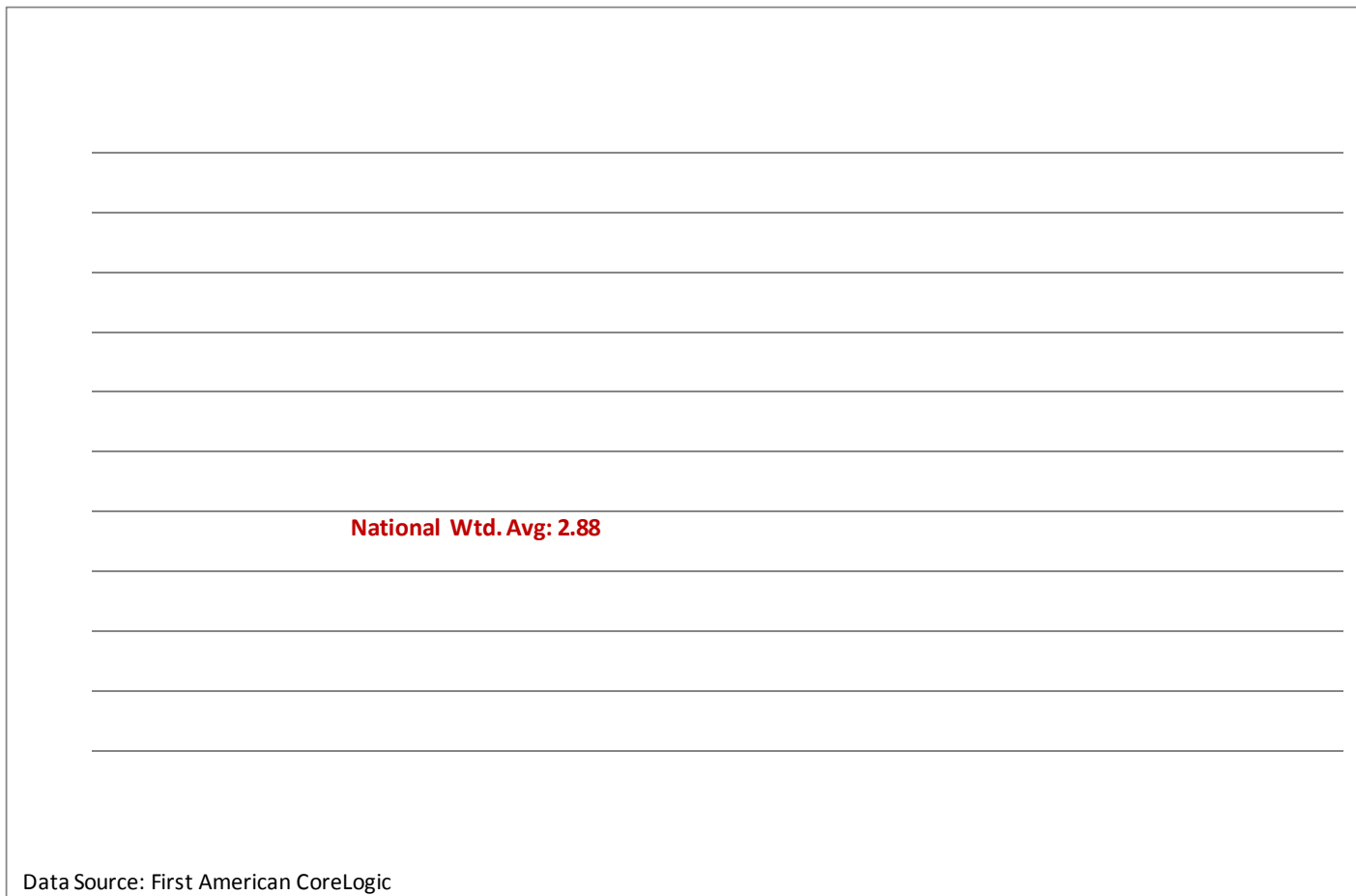
- ◆ 4.7 million of the Loan Population made up the Qualified Pool.
- ◆ 15.4 million of the Loan Population made up the Non-Qualified Loan Pool.
- ◆ The Qualified Pool has performed considerably better than the Non-Qualified population measured by loans that were 90+days delinquent or defaulted. This holds true across the range of vintages examined.
- ◆ The Qualified Pool also outperformed the Non-Qualified in each of the Top 25 MSA's.



Qualified Mortgages Outperformed Non-Qualified Mortgages by Almost 3:1

# Summary of Results

- ◆ We examined Non-Qualified to Qualified Performance Ratios by the Top 25 MSA's.
- ◆ Non-Qualified Loans performed at least 2x worse in 24 of the 25 largest MSAs.



# Summary of Results

- ◆ Below you will find the relative performance of Non-Qualified Loans to Qualified Loans with a LTV  $\leq 80$ .
- ◆ Qualified Loans outperformed Non-Qualified Loans by a ratio of almost 3:1.



# Summary of Results

- ◆ Below you will find the relative performance of Non-Qualified Loans to Qualified Loans with a LTV >80.
- ◆ Despite substantially higher Delinquencies and Defaults on Qualified Loans with a LTV >80, Non-Qualified Loans with a LTV >80 performed on average more than 2x worse.



# About Vertical Capital Solutions

## Vertical Capital Solutions

- ◆ Vertical Capital Solutions (“VCS”) provides independent valuation and advisory services across a wide array of fixed income assets; with specific focus on complex products in the loan, bond, derivative, and structured products markets.
- ◆ The Company was established from an existing advisory platform in partnership with Vertical Capital, LLC, an SEC registered investment advisor and over \$4 billion in assets under management.
- ◆ The platform combines Vertical Capital’s market leading technology and analytics platform with a seasoned advisory team with significant experience in the valuation, risk management, and trading of complex loans and securities as well as their derivatives.
- ◆ VCAP Solutions management team has held leadership roles at global banks, insurance companies, and asset management firms, with first hand experience in the risk management of loans and structured product portfolios.
- ◆ Our value proposition is to bring granularity, transparency, and scalability in the pricing and risk analysis of complex products coupled with the market and risk management experience of our team.

# Overview of VCS Services

## **Valuation**

- ◆ Securities/derivatives pricing
- ◆ Independent price verification and reconciliation
- ◆ Impairment calculations and scenario analysis

## **Risk Assessment**

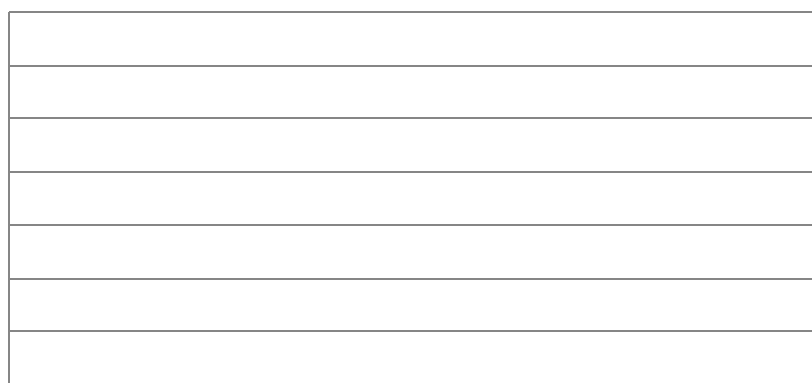
- ◆ Portfolio and asset level risk analysis
- ◆ Deal structure and documentation
- ◆ Stress and sensitivity analysis

## **Strategic Advisory**

- ◆ Asset disposition/acquisition/workout
- ◆ Portfolio structuring or restructuring alternatives
- ◆ Market strategy/product education

# Appendix – Estimated Losses & MI Benefits

- ◆ We examined and estimated losses by LTV:
  - LTV = 80%;
  - LTV > 80% with MI; and
  - LTV > 80% with no MI
- ◆ Losses for each vintage were calculated by taking the % of 90+Delinquent and Defaults multiplied by the Estimated Loss Severity (see next page)
- ◆ Loans with a LTV >80% and no MI had losses 6X higher than loans with a LTV >80% and MI
- ◆ When you factor in the benefits of MI, losses are reduced by weighted average of ~88%.



Source: Genworth



Source: Genworth



# Appendix - Loss Severity Calculations

## Loss Severity Calculations

Recovery Ratios By Origination Book	Average MTG Rate	80 LTV Claim	80 LTV Loss Severity	WTD >80 LTV	Wtd >80 Claim	>80 LTV Loss Severity	WTD MI Cov %	WTD MI Cov Benefit	>80 W MI Net Loss Severity	
2002	74.00%	6.70%	92.04	22.55%	94.92	109.20	37.1%	31.0%	33.8%	3.3%
2003	77.85%	5.90%	91.08	16.54%	95.38	108.59	32.2%	31.9%	34.6%	0.0%
2004	80.69%	6.00%	91.20	13.14%	95.78	109.19	29.8%	32.7%	35.7%	0.0%
2005	77.36%	6.10%	91.32	17.45%	95.77	109.32	33.4%	32.7%	35.8%	0.0%
2006	68.36%	6.60%	91.92	29.45%	96.17	110.49	43.8%	33.5%	37.0%	6.8%
2007	63.52%	6.50%	91.80	35.35%	96.32	110.53	48.8%	33.7%	37.3%	11.5%
2008	62.67%	6.20%	91.44	35.96%	95.00	108.59	48.3%	30.0%	32.6%	15.8%

Data Sources:

- 1) Recovery Ratios defined as value of property at foreclosure divided by value at origination. Data Provided By Genworth Financial
- 2) Average Mortgage Coupon Rates taken from Freddie Mac .
- 3) Estimation Of Wtd >80 LTV taken from MICA claims paid by LTV.

# Piggyback Study

# Performance of Insured vs Piggyback Mortgage Loans

Genworth Financial

August 2010

## Study Concept Summary

Genworth is pleased to report a more thorough examination of the differences in insured loan versus piggy back loan performance. The Original study focused on 30+ delinquencies over four origination years with cuts by origination year, CLTV, and FICO, and two geographic cuts. The sub group combination differences were then weighted by the overall volume of both insured and piggy-back loans in each segment, and then rolled up to display the relative differences in performance given the specific segmentation. Overall that study suggested that piggy-back loans performed 55% worse than insured loans with similar characteristics.

This revised study now focuses on ever 90+ delinquency rates and the cure rates on loans ever 90 days delinquent. The new study adds an additional origination year, 2003, and more importantly, adds additional characteristic cuts such as document type, loan purpose, and expands the geographic breaks to the nine US Census regions. The overall number of possible combination sets therefore increases nearly 20 fold going from 256 combination segments to 5,040 in this expanded study. This greater degree of detail should have the effect of removing the effects of differences in the distributions of insured loans relative to piggy-back loans. Theoretically, increasing the degree of segmentation should move the overall weighted ratio of performance directionally from the 1.55 in the former study closer to 1.0.

The new study also differs from the former in that the older study used the total volume of both the insured and piggy-back loans to weight the ratios of each identified segment. However, with a 20 fold increase in segmentation, and because piggy-back loans were smaller in volume than insured loans some segments had extremely low piggyback volumes where it would be entirely possible for all or none of the loans to be delinquent. Consequently, the use of total volume weights (piggyback plus insured) would distort the effects of differences in the distribution of piggy-back loans. For instance, for the 2003 originations 100 CLTV loans accounted for 48.9% of both the insured and piggy back volume for 2003. However, Piggy-back loans with 100% CLTV were only 17.8% of the 2003 piggy volume. Using the total volume would over-weight CLTV 100 ratios, whereas using the piggy-back volume would put the relative difference in 100 LTV performance in a more appropriate perspective.

The other major component of this updated study is the inclusion of an analysis of the cure rates on loans ever 90 days delinquent. The study will show that even for segments where there is little difference in ever 90+ delinquency rates, MI insured loans exhibit significantly higher cure rates, thereby affecting the ultimate foreclosure rates on such segments. The expertise and willingness of MIs to work with delinquent insured borrowers plays a major role in reducing the real risk of default on high LTV loans.

### Study Composition

Total Volumes Of Originations	Piggy-Back Volume	\$260.6 billion	Insured Volume	\$588.9 billion	<b>Total Volume</b>	<b>\$849.5 billion</b>
Numbers of Loans		1,045,328		3,872,318		4,917,646

Expanded Study On Ever 90 Days Delinquent And Subsequent Cure Rates	Original Study On 30+ Delinquency Rates
5 Origination Years 2003 - 2007	4 Origination Years 2004 - 2007
2 Documentation Types : Full Docs, Low or No Docs	
2 Loan Purpose Categories: Purchase, Refinancing ( Other was excluded)	
4 CLTV Ranges : 80.1 to 85, 85.1 to 90, 90.1 to 95, GT 95	4 CLTV Ranges : 80.1 to 85, 85.1 to 90, 90.1 to 95, GT 95
7 FICO Ranges : <620, 620-659, 660-699, 700-719, 720-739, 740-759, 760+ ( No FICOs were excluded)	8 FICO Score Ranges
9 US Census Regions	2 Market Segments : Distressed States FL,NV,CA,AZ,MI), All Others
Number of Combination Segments = $5 \times 2 \times 2 \times 4 \times 7 \times 9 =$ <b>5,040</b>	Number of Combination Segments = $4 \times 4 \times 8 \times 2 =$ <b>256</b>

**19.7 Fold Increase In Segmentation**

## Data And Methodology

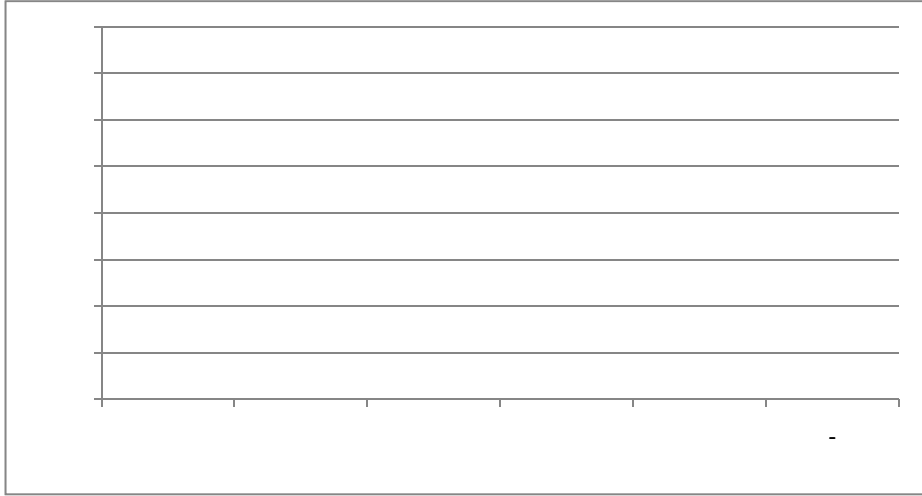
Genworth utilized the servicing data set of Corelogic which has collected highly detailed loan level loan performance information from several large major servicing companies. Piggyback loans are identified as first lien loans with an LTV of 80% and a CLTV greater than 80%. Insured loans are identified by the coding of an insurance provider, whether it be a private mortgage insurer or FHA or VA. Our study focused on loans with CLTV greater than 80%, originated from 2003 through 2007. The sample selected totals 4,917,646 loans of which 3,872,318 are insured high LTV loans, and 1,045,328 are first lien structured or piggyback loans. The overall volume totaled \$0.85 trillion.

The previous study focused on loans that were currently delinquent 30+ days and loans that had terminated in default. This study takes the analysis much farther. This study reviewed the monthly status of all 4.9 million loans in the sample to see which loans were ever 90 days delinquent, and then follows the monthly status reports until the loan either cures or goes to foreclosure. Consequently, this study evaluates both the performance of the loans and also permits a review of actual cures of previous delinquencies that ultimately resulted in current status for loans still outstanding or successful payoff .

The delinquency rate for the piggyback loans is somewhat understated in that the data set only captures the delinquency rates on first liens. There are likely loans where the 1st lien is still current, but the 2nd lien is delinquent. If these delinquencies were added to the piggyback data, their delinquency rate would be even higher than shown and the differential to Insured loans would be even larger.

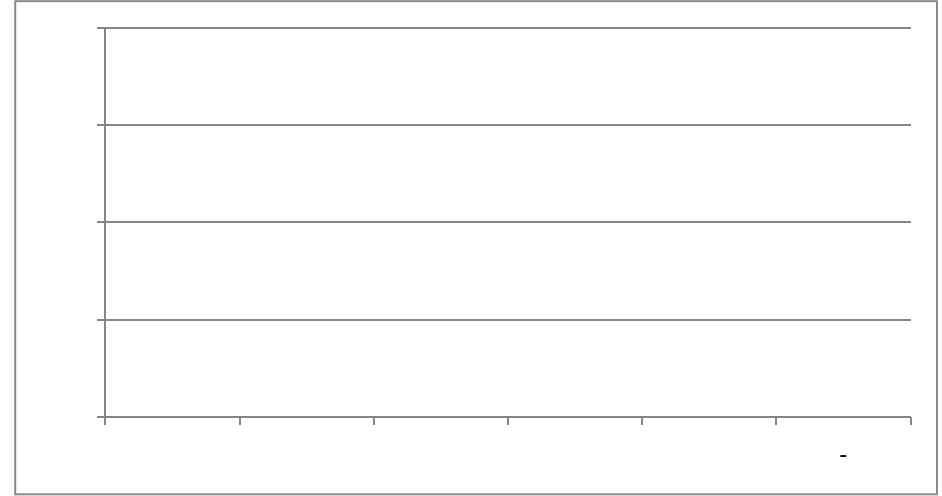
### Ever 90 Day Delinquency Rates By Origination Year

Weighting Segments By Piggyback Profile



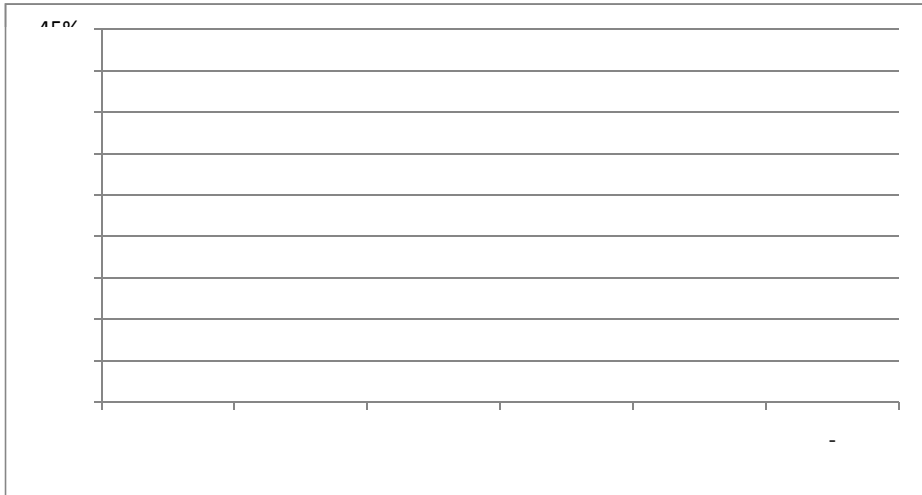
### Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates

Piggyback ETD 90 Rate / Insured ETD 90 Rate



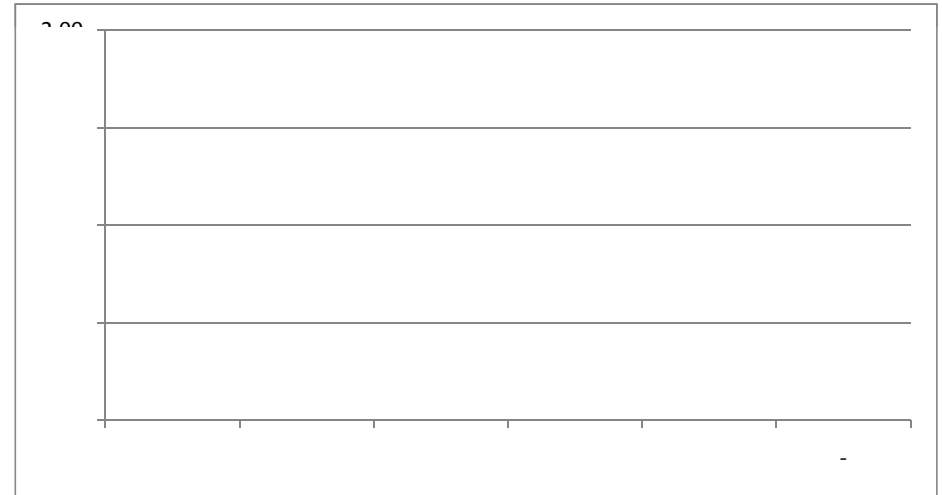
### Cure Rates On Ever 90 Day Delinquencies By Origination Year

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

Insured Cure Rate / Piggyback Cure Rate

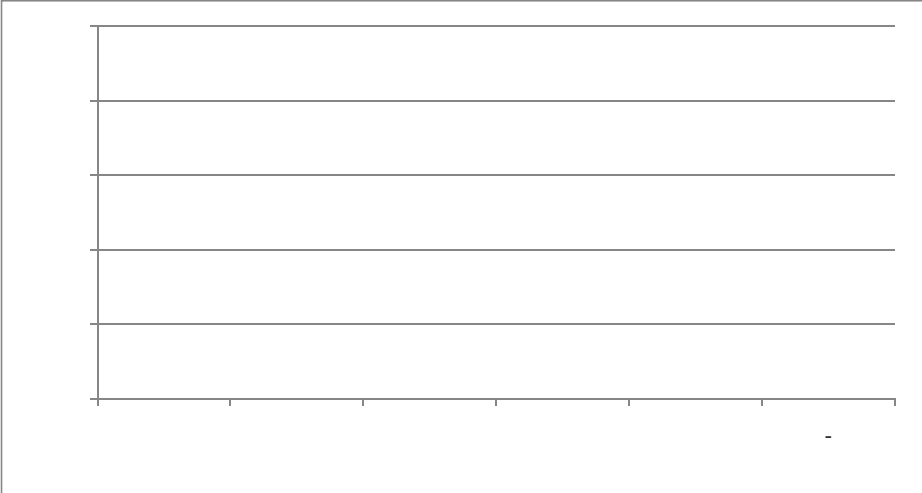


**Insured Loans Performed 47% Better than Piggyback Loans**

**Once Delinquent 90 Days Or More, Insured Loans Exhibited Cure Rates Nearly 54% Higher Than First Lien Piggybacks**

**Current 90+ Day Delinquency Rates By Origination Year**

Weighting Segments By Piggyback Profile



**Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates**

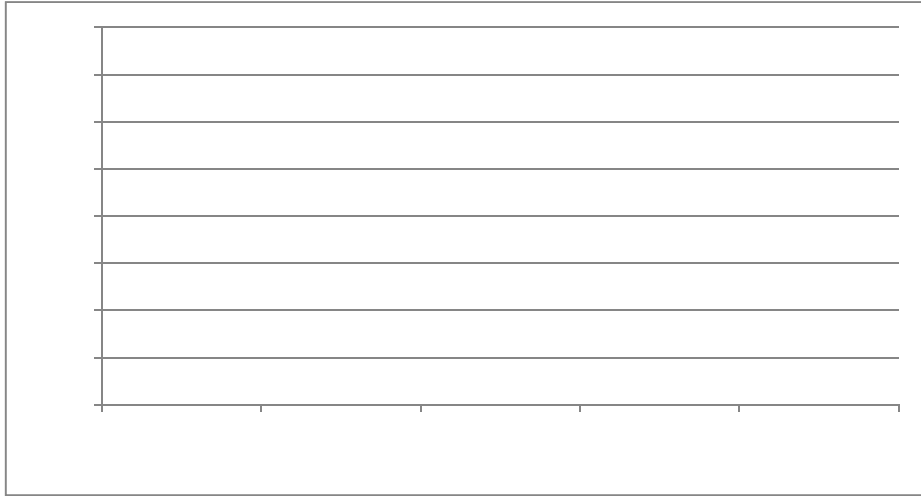
Piggyback Current 90+ Rate / Insured Current 90+ Rate



**Lower Ever 90 Delqs Combined with More Cures Result in Insured Loans Having 65% Less Defaults (90+ & F/C)**

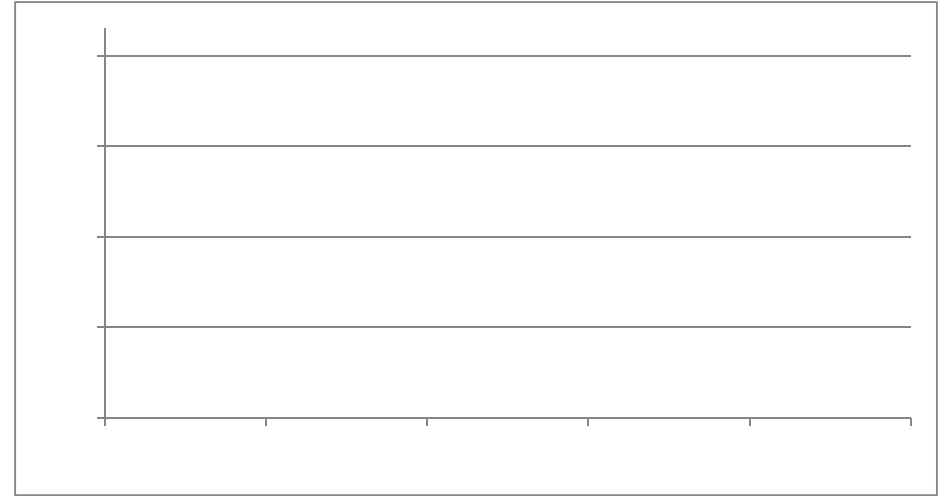
### Ever 90 Day+ Delinquency Rates By CLTV

Weighting Segments By Piggyback Profile



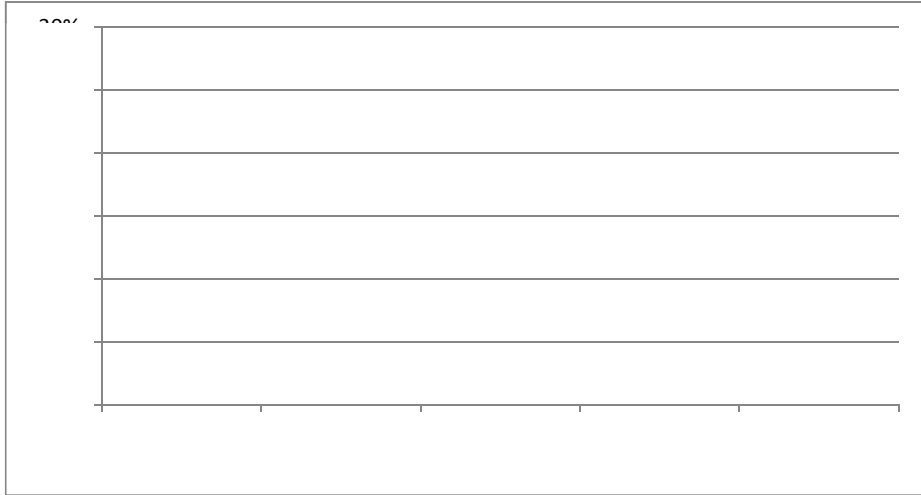
### Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates

Piggyback ETD 90 Rate / Insured ETD 90 Rate



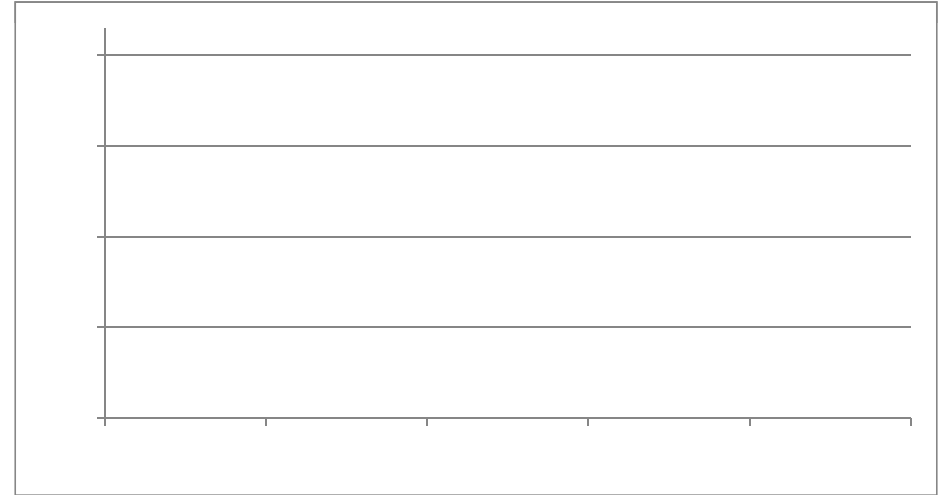
### Cure Rates On Ever 90 Day Delinquencies By CLTV

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

Insured Cure Rate / Piggyback Cure Rate



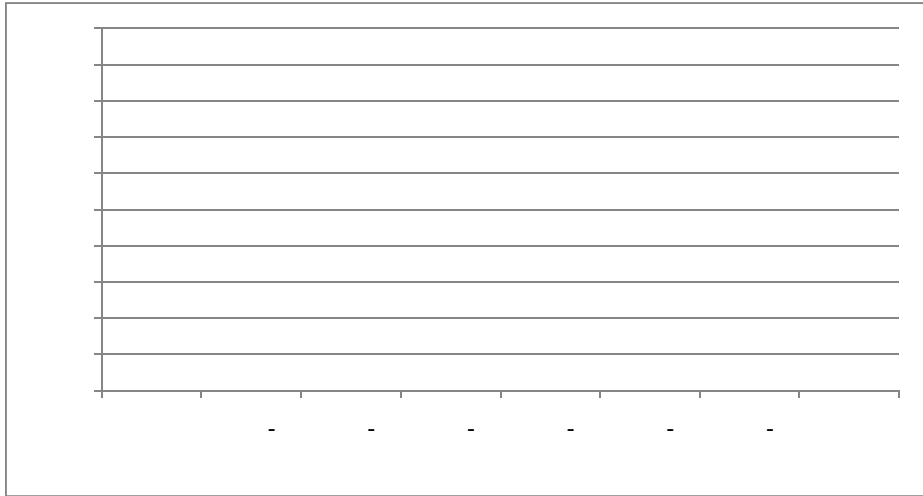
**Piggyback 90+ Delinquency Rates Were Significantly Higher For All CLTV Ranges Except For 95 CLTV**

**Nevertheless, For ALL CLTV Ranges, Including 95 CLTV, Insured Loans Had Significantly Higher Cure Rates**



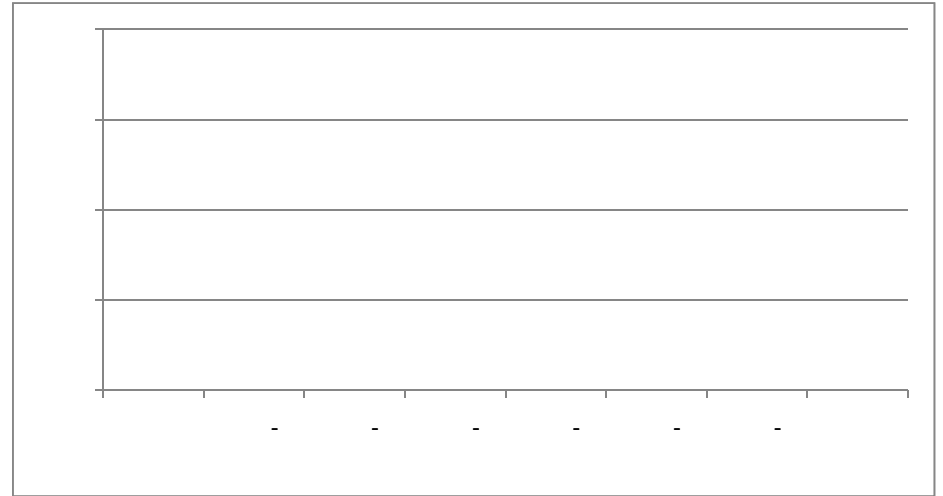
### Ever 90+ Delinquency Rates By FICO Score

Weighting Segments By Piggyback Profile



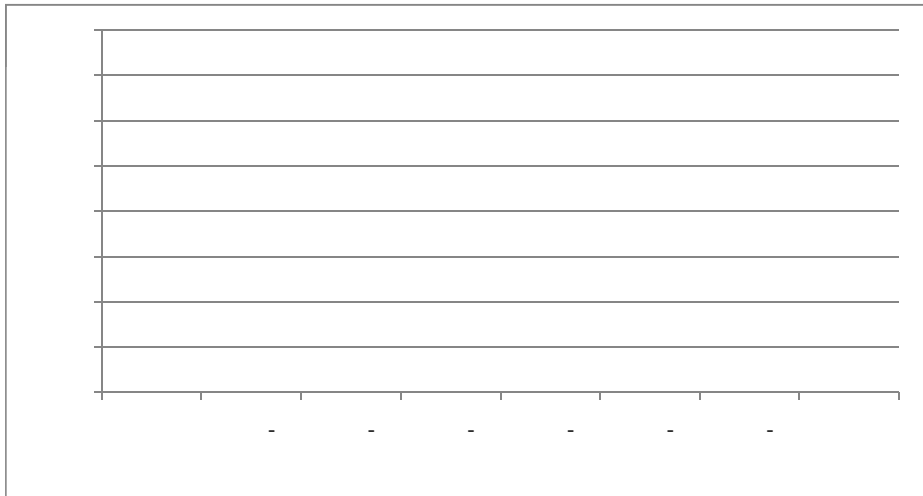
### Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates

Piggyback ETD 90 Rate / Insured ETD 90 Rate



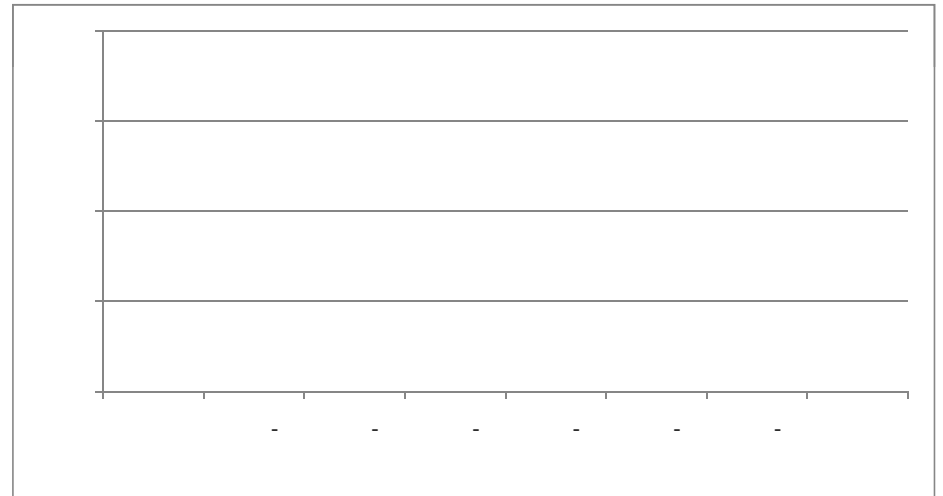
### Cure Rates On Ever 90 Day Delquencies BY FICO Range

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

Insured Cure Rate / Piggyback Cure Rate

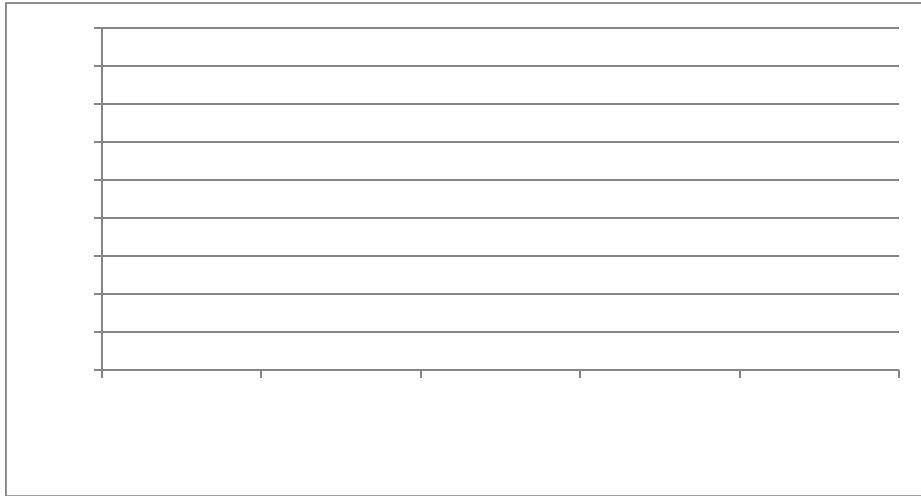


**Piggyback Performance Decidely Worse in Virtually All FICO Ranges**

**Cure Rates On Insured Loans Solidly Higher By 35% or More Depending On the FICO Range**

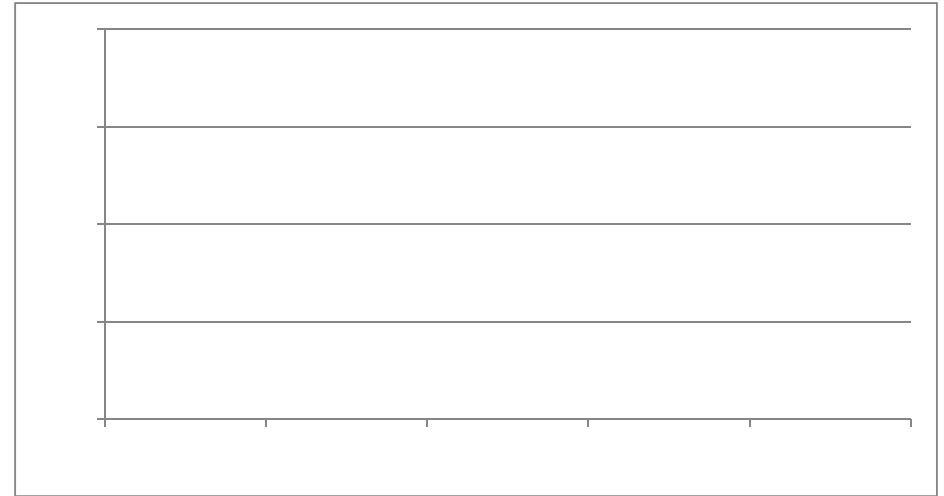
### Ever 90+ Delinquency Rates By Doc Type/Loan Purpose

Weighting Segments By Piggyback Profile



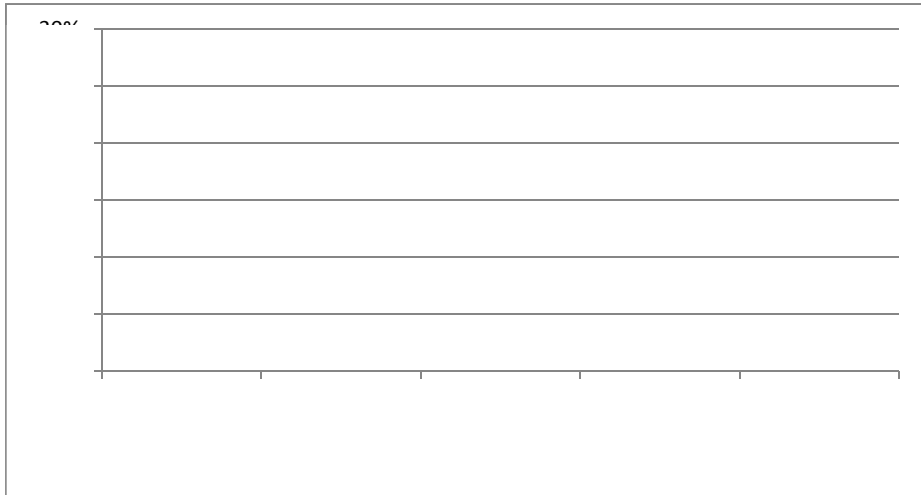
### Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates

Piggyback ETD 90 Rate / Insured ETD 90 Rate



### Cure Rates On Ever 90 Day Delqs By Doc Type/Loan Purpose

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

Insured Cure Rate / Piggyback Cure Rate

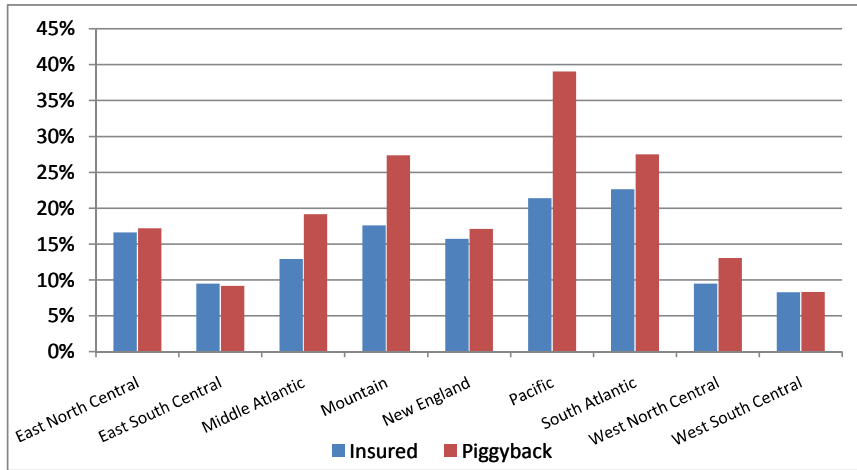


**Evaluation by Documentation & Loan Purpose Shows Insured Loans Clearly Outperform Piggybacks In Each of Segment Roll Ups**

**Insured Loan Cure Rates Were Substantially Higher in All Of These Roll -Up Combinations**

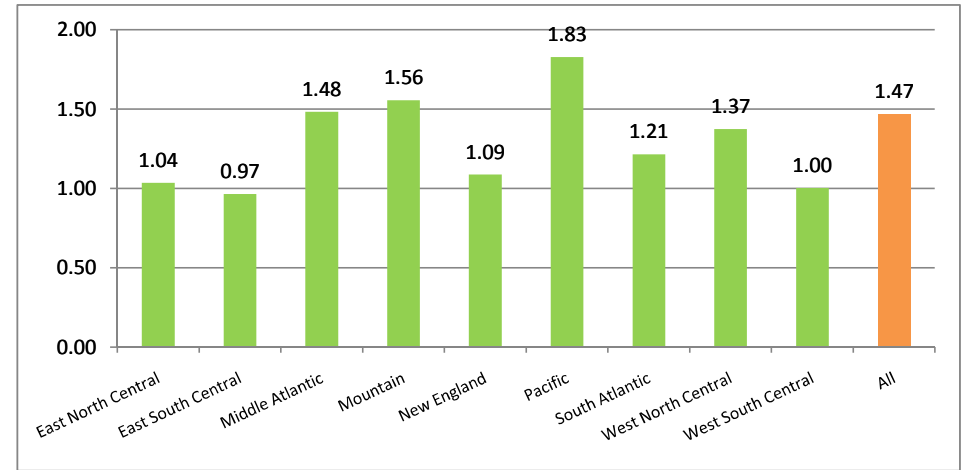
### Ever 90 Day Delinquent Rates By US Census Region

Weighting Segments By Piggyback Profile



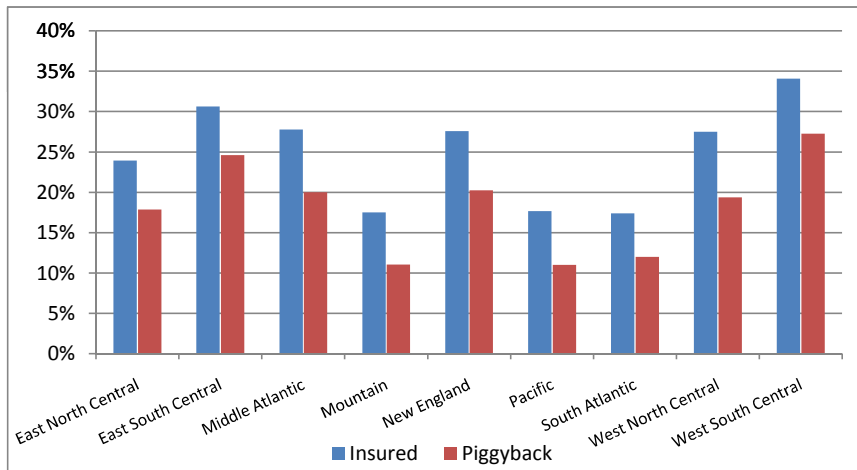
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Piggyback ETD 90 Rate / Insured ETD 90 Rate



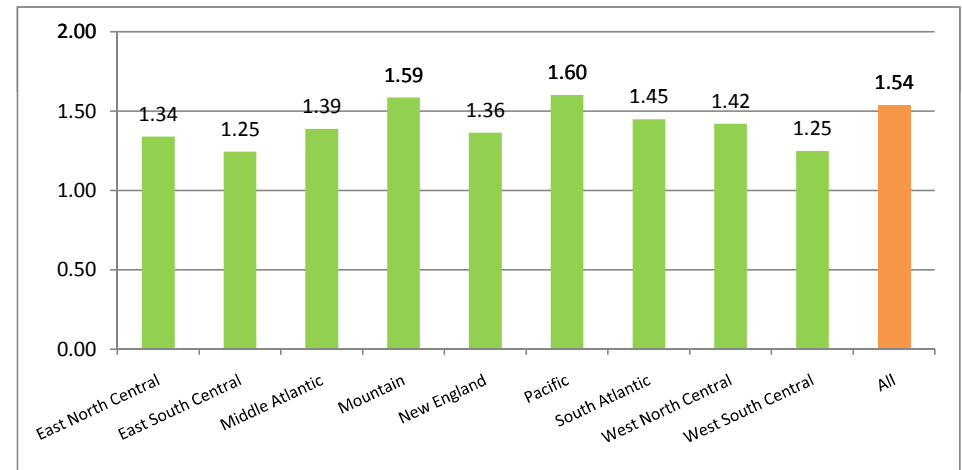
### Cure Rates On Ever 90 Day Delqs By US Census Region

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

Insured Cure Rate / Piggyback Cure Rate

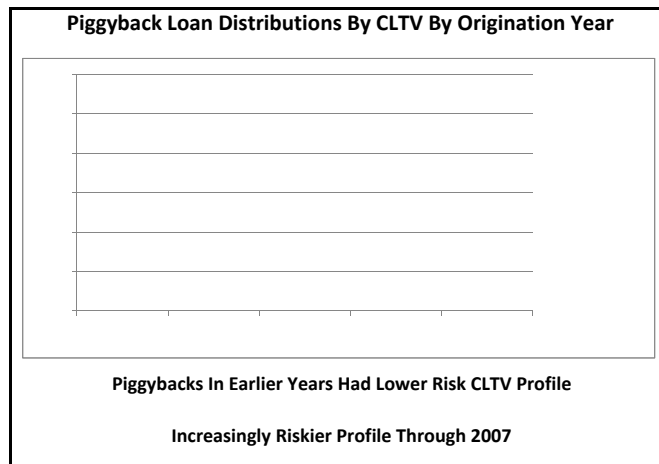
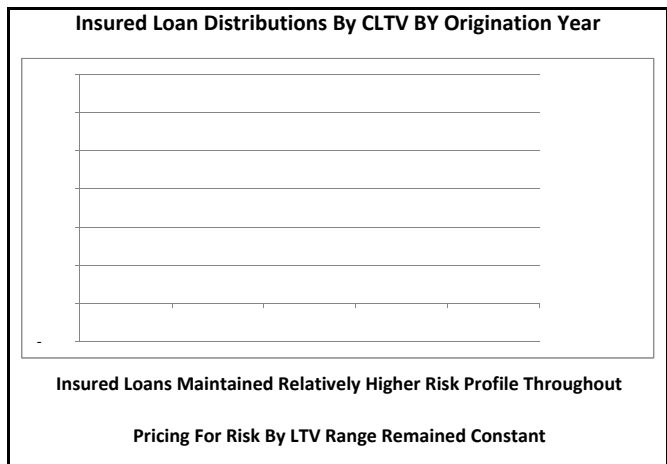
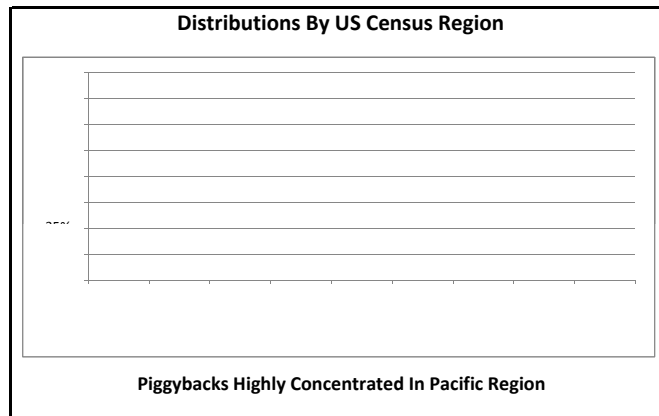
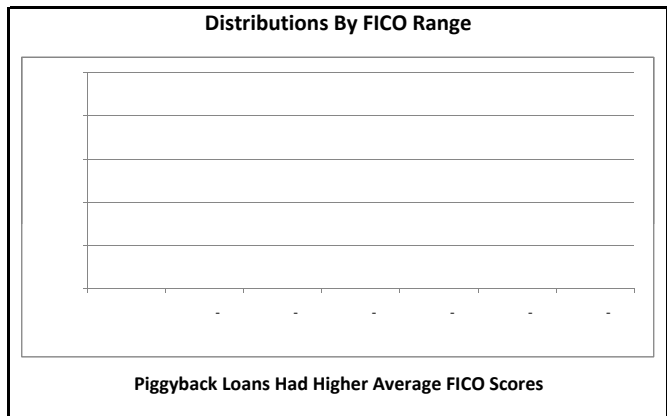
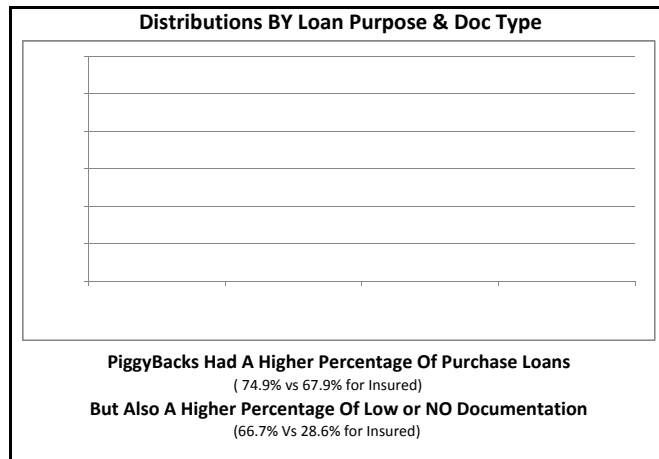
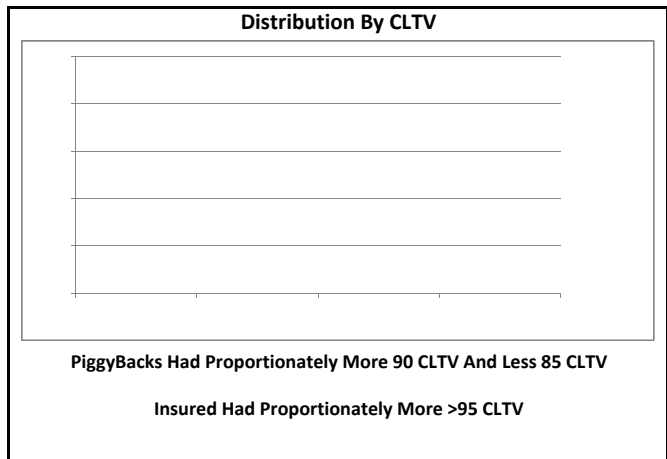


**While Ever 90 Delinquent Performance Differences Were Not Uniform Across All Regions,**

**Such Differences Were Highest In Worse Performing Regions**

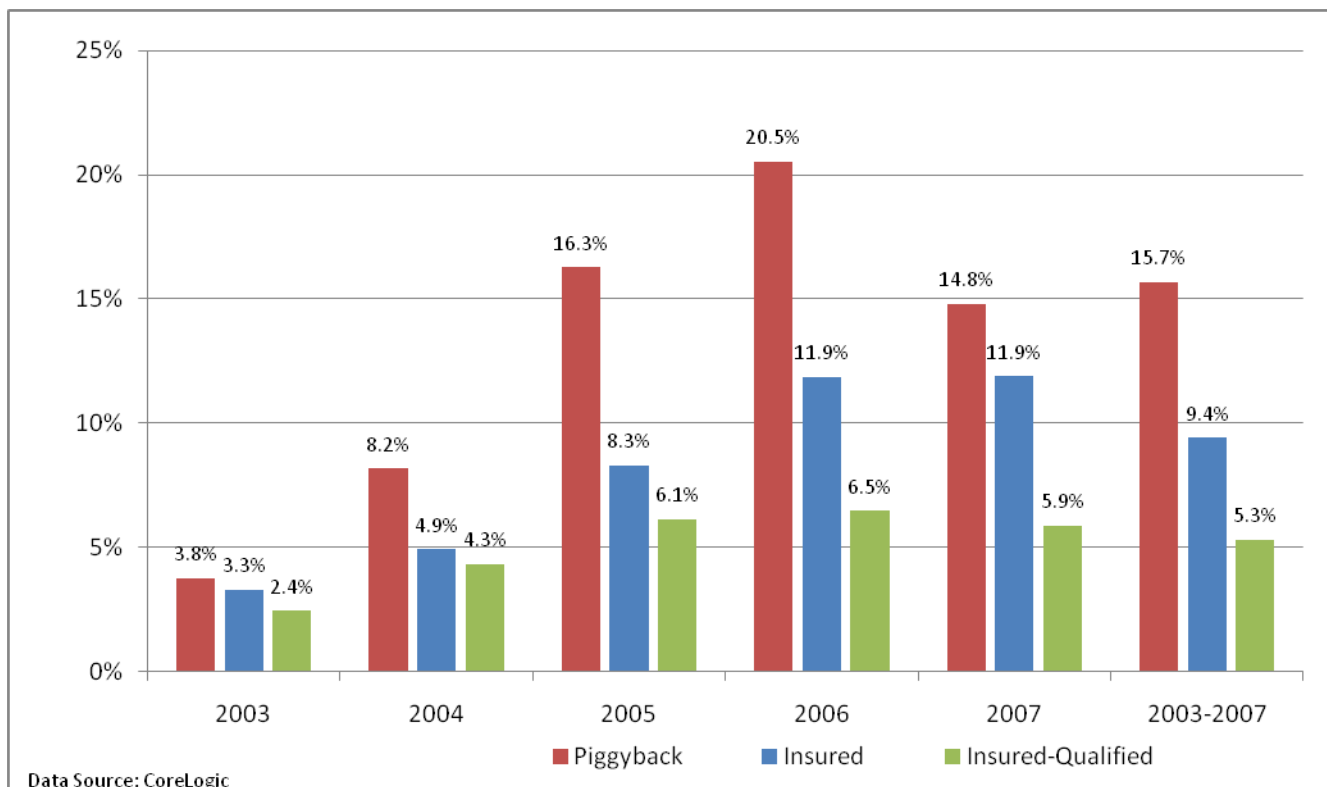
**Cure Rates On Insured Loans Remained Significantly Higher Across All US Census Regions**

**Appendix - Differences In Distributions Across Key Metrics**



# Qualified Insured Loan Performance

## NON-PERFORMING RATES\*



**“Qualified” Insured Loans Have Performed Well Through the Downturn**

\* Non-Performing Rate:  $(\# \text{ Loans Currently 90 or more days delinquent} + \text{loans that terminated in default}) / \text{original number of loans}$



Genworth®  
Financial

# Risk Retention and Qualified Residential Mortgage

Securities and Exchange  
Commission

March 16, 2011

# Risk Retention and Qualified Residential Mortgage

- **Dodd-Frank Wall Street Reform and Consumer Protection Act Creates New Obligation for Securitizers to Retain Interest in Securitized Assets**
- **Bill Directs Regulators to Exempt Qualified Residential Mortgages (QRM)**
- **Regulators Must Define a QRM Taking into Consideration Underwriting and Product Features That Result in a Lower Risk of Default Such as:**
  - Documented and verified financial resources
  - Standards for: a) residual income after meeting all obligations; b) ratio of housing payment to income; c) ratio of all installment payments to income
  - Standards and features that mitigate the payment shock of ARMs
  - Mortgage guaranty insurance (or other insurance or credit enhancement) obtained *at the time of origination* to the extent such insurance/credit enhancement reduces the risk of default.
  - Prohibitions/restrictions on balloon payments, negative amortization, prepay penalties, interest only & other similar high risk features

## Data Clearly Demonstrates:

- A Qualified Mortgage standard mitigates the risk of default
- On low down payment loans, Insured Loans have a lower risk of default than comparable Piggyback (uninsured) Loans

# Qualified Mortgage Study



# VERTICAL CAPITAL SOLUTIONS



## Historical Performance of Qualified vs Non-Qualified Mortgage Loans

February 2010

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# Scope of Project

- ◆ Vertical Capital Solutions (“VCS”) working in conjunction with First American Core Logic (“FACL”), performed an unbiased comparison of performance statistics between two populations of conventional loans (Qualified and Non-Qualified).
- ◆ The comparison segregated the loans by origination year, Loan-To-Value (“LTV”), and presence of Mortgage Insurance (“MI”) as a way to further examine the findings.
- ◆ In addition, the data was segregated by the 25 Metropolitan Statistical Areas (MSA's) with the largest number of originations between 2002 and 2008.
- ◆ The criteria used for the determination of the Qualified pool is outlined below (the “Qualified Criteria”):
  - Debt-To-Income  $\leq$  41%;
  - 7/1 ARM's & Greater or Fixed Rate;
  - Term  $\leq$  360 months;
  - No Balloon;
  - No Interest Only;
  - No Negative Amortization;
  - Full Documentation; and
  - If the Loans had a LTV  $>$ 80% it must carry MI

# Methodology

- ◆ Developed performance statistics by vintage, LTV, MI and the Top 25 MSA's by utilizing FACL's Servicing Database (the "Servicing Database").
- ◆ The performance statistics were compiled as of 11/30/2009.
- ◆ The overall population consists of 37 million conventional loans originated between 2002 and 2008 (the "Loan Population")
- ◆ The Loan Population was then defined into two categories Qualified and Non-Qualified
- ◆ The Qualified Criteria was chosen to most closely match the criteria provided with the data available in the Servicing Database (**the "Qualified Pool"**).
- ◆ The non-qualified population consists of loans where all necessary data points are present, but one or more of the Qualified Criteria were not met (**the "Non-Qualified Pool"**).
- ◆ The remaining population (**the "Qualification Unknown Pool"**), not reported, consists of loans where the necessary data points were not all present and therefore qualification could not be determined.
- ◆ The Servicing Database does not report the liquidation type. However, the loan status at the time of liquidation is tracked.
- ◆ Non-performing loans were any loans currently 90+ days delinquent or had defaulted at the time of liquidation.

# Summary of Results

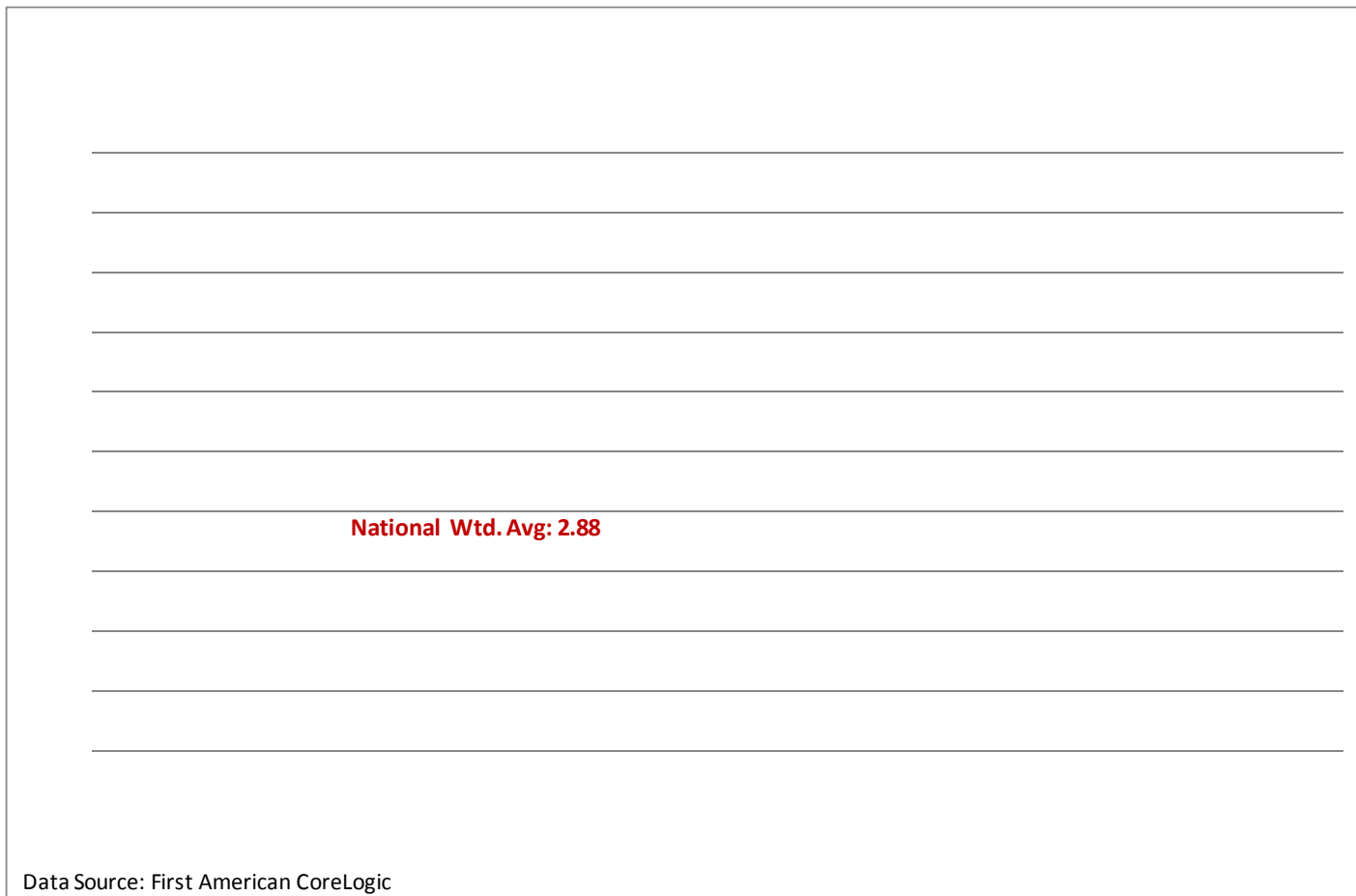
- ◆ 4.7 million of the Loan Population made up the Qualified Pool.
- ◆ 15.4 million of the Loan Population made up the Non-Qualified Loan Pool.
- ◆ The Qualified Pool has performed considerably better than the Non-Qualified population measured by loans that were 90+days delinquent or defaulted. This holds true across the range of vintages examined.
- ◆ The Qualified Pool also outperformed the Non-Qualified in each of the Top 25 MSA's.



Qualified Mortgages Outperformed Non-Qualified Mortgages by Almost 3:1

# Summary of Results

- ◆ We examined Non-Qualified to Qualified Performance Ratios by the Top 25 MSA's.
- ◆ Non-Qualified Loans performed at least 2x worse in 24 of the 25 largest MSAs.



# Summary of Results

- ◆ Below you will find the relative performance of Non-Qualified Loans to Qualified Loans with a LTV  $\leq 80$ .
- ◆ Qualified Loans outperformed Non-Qualified Loans by a ratio of almost 3:1.



# Summary of Results

- ◆ Below you will find the relative performance of Non-Qualified Loans to Qualified Loans with a LTV >80.
- ◆ Despite substantially higher Delinquencies and Defaults on Qualified Loans with a LTV >80, Non-Qualified Loans with a LTV >80 performed on average more than 2x worse.





# About Vertical Capital Solutions

## Vertical Capital Solutions

- ◆ Vertical Capital Solutions (“VCS”) provides independent valuation and advisory services across a wide array of fixed income assets; with specific focus on complex products in the loan, bond, derivative, and structured products markets.
- ◆ The Company was established from an existing advisory platform in partnership with Vertical Capital, LLC, an SEC registered investment advisor and over \$4 billion in assets under management.
- ◆ The platform combines Vertical Capital’s market leading technology and analytics platform with a seasoned advisory team with significant experience in the valuation, risk management, and trading of complex loans and securities as well as their derivatives.
- ◆ VCAP Solutions management team has held leadership roles at global banks, insurance companies, and asset management firms, with first hand experience in the risk management of loans and structured product portfolios.
- ◆ Our value proposition is to bring granularity, transparency, and scalability in the pricing and risk analysis of complex products coupled with the market and risk management experience of our team.

# Overview of VCS Services

## **Valuation**

- ◆ Securities/derivatives pricing
- ◆ Independent price verification and reconciliation
- ◆ Impairment calculations and scenario analysis

## **Risk Assessment**

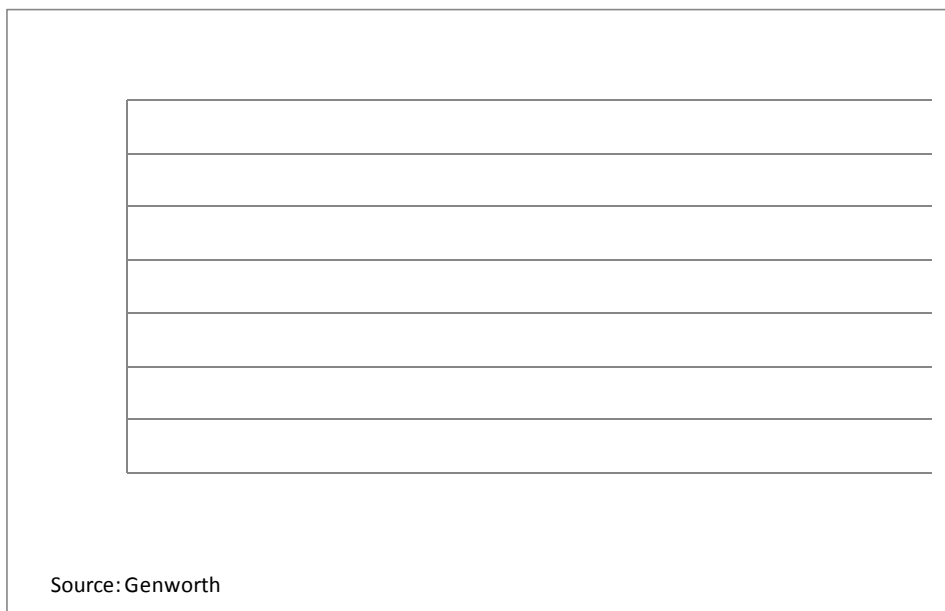
- ◆ Portfolio and asset level risk analysis
- ◆ Deal structure and documentation
- ◆ Stress and sensitivity analysis

## **Strategic Advisory**

- ◆ Asset disposition/acquisition/workout
- ◆ Portfolio structuring or restructuring alternatives
- ◆ Market strategy/product education

# Appendix – Estimated Losses & MI Benefits

- ◆ We examined and estimated losses by LTV:
  - LTV = 80%;
  - LTV > 80% with MI; and
  - LTV > 80% with no MI
- ◆ Losses for each vintage were calculated by taking the % of 90+Delinquent and Defaults multiplied by the Estimated Loss Severity (see next page)
- ◆ Loans with a LTV >80% and no MI had losses 6X higher than loans with a LTV >80% and MI
- ◆ When you factor in the benefits of MI, losses are reduced by weighted average of ~88%.



# Appendix - Loss Severity Calculations

## Loss Severity Calculations

Recovery Ratios By Origination Book	Average MTG Rate	80 LTV Claim	80 LTV Loss Severity	WTD >80 LTV	Wtd >80 Claim	>80 LTV Loss Severity	WTD MI Cov %	WTD MI Cov Benefit	>80 W MI Net Loss Severity	
2002	74.00%	6.70%	92.04	22.55%	94.92	109.20	37.1%	31.0%	33.8%	3.3%
2003	77.85%	5.90%	91.08	16.54%	95.38	108.59	32.2%	31.9%	34.6%	0.0%
2004	80.69%	6.00%	91.20	13.14%	95.78	109.19	29.8%	32.7%	35.7%	0.0%
2005	77.36%	6.10%	91.32	17.45%	95.77	109.32	33.4%	32.7%	35.8%	0.0%
2006	68.36%	6.60%	91.92	29.45%	96.17	110.49	43.8%	33.5%	37.0%	6.8%
2007	63.52%	6.50%	91.80	35.35%	96.32	110.53	48.8%	33.7%	37.3%	11.5%
2008	62.67%	6.20%	91.44	35.96%	95.00	108.59	48.3%	30.0%	32.6%	15.8%

Data Sources:

- 1) Recovery Ratios defined as value of property at foreclosure divided by value at origination. Data Provided By Genworth Financial
- 2) Average Mortgage Coupon Rates taken from Freddie Mac .
- 3) Estimation Of Wtd >80 LTV taken from MICA claims paid by LTV.

# Insured Loan Study

# Performance of Insured vs Piggyback Mortgage Loans

Genworth Financial

August 2010

## Study Concept Summary

Genworth is pleased to report a more thorough examination of the differences in insured loan versus piggy back loan performance. The Original study focused on 30+ delinquencies over four origination years with cuts by origination year, CLTV, and FICO, and two geographic cuts. The sub group combination differences were then weighted by the overall volume of both insured and piggy-back loans in each segment, and then rolled up to display the relative differences in performance given the specific segmentation. Overall that study suggested that piggy-back loans performed 55% worse than insured loans with similar characteristics.

This revised study now focuses on ever 90+ delinquency rates and the cure rates on loans ever 90 days delinquent. The new study adds an additional origination year, 2003, and more importantly, adds additional characteristic cuts such as document type, loan purpose, and expands the geographic breaks to the nine US Census regions. The overall number of possible combination sets therefore increases nearly 20 fold going from 256 combination segments to 5,040 in this expanded study. Controlling for the differences in distribution across so many segments removes the effects these differences in have on performance of insured loans relative to piggy-back loans. Increasing the degree of segmentation and controlling for it, removes the distortion from those factors and isolates the impact of mortgage insurance.

The new study also differs from the former in that the older study used the total volume of both the insured and piggy-back loans to weight the ratios of each identified segment. However, with a 20 fold increase in segmentation, and because piggy-back loans were smaller in volume than insured loans some segments had extremely low piggyback volumes where it would be entirely possible for all or none of the loans to be delinquent. Consequently, the use of total volume weights (piggyback plus insured) would distort the effects of differences in the distribution of piggy-back loans. For instance, for the 2003 originations 100 CLTV loans accounted for 48.9% of both the insured and piggy back volume for 2003. However, Piggy-back loans with 100% CLTV were only 17.8% of the 2003 piggy volume. Using the total volume would over-weight CLTV 100 ratios, whereas using the piggy-back volume would put the relative difference in 100 LTV performance in a more appropriate perspective.

The other major component of this updated study is the inclusion of an analysis of the cure rates on loans ever 90 days delinquent. The study will show that even for segments where there is little difference in ever 90+ delinquency rates, MI insured loans exhibit significantly higher cure rates, thereby affecting the ultimate foreclosure rates on such segments. The expertise and willingness of MIs to work with delinquent insured borrowers plays a major role in reducing the real risk of default on high LTV loans.

### Study Composition

Total Volumes Of Originations	Piggy-Back Volume	\$260.6 billion	Insured Volume	\$589.3 billion	<b>Total Volume</b>	<b>\$849.9 billion</b>
Numbers of Loans		1,080,166		6,331,087		7,411,253

Expanded Study On Ever 90 Days Delinquent And Subsequent Cure Rates	Original Study On 30+ Delinquency Rates
5 Origination Years 2003 - 2007	4 Origination Years 2004 - 2007
2 Documentation Types : Full Docs, Low or No Docs	
2 Loan Purpose Categories: Purchase, Refinancing (Other was excluded)	
4 CLTV Ranges : 80.1 to 85, 85.1 to 90, 90.1 to 95, GT 95	4 CLTV Ranges : 80.1 to 85, 85.1 to 90, 90.1 to 95, GT 95
7 FICO Ranges : <620, 620-659, 660-699, 700-719, 720-739, 740-759, 760+ ( No FICOs were excluded)	8 FICO Score Ranges
9 US Census Regions	2 Market Segments : Distressed States FL,NV,CA,AZ,MI), All Others
Number of Combination Segments Controlled for = $5 \times 2 \times 2 \times 4 \times 7 \times 9 =$	Number of Combination Segments = $4 \times 4 \times 8 \times 2 =$
<b>5,040</b>	<b>256</b>

**19.7 Fold Increase In Segmentation**

## Data And Methodology

Genworth utilized the servicing data set of Corelogic which has collected highly detailed loan level loan performance information from several large major servicing companies. Piggyback loans are identified as first lien loans with an LTV of 80% and a CLTV greater than 80%. Insured loans are identified by the coding of an insurance provider, whether it be a private mortgage insurer or FHA or VA. Our study focused on loans with CLTV greater than 80%, originated from 2003 through 2007. The sample selected totals 4,917,646 loans of which 3,872,318 are insured high LTV loans, and 1,045,328 are first lien structured or piggyback loans. The overall volume totaled \$0.85 trillion.

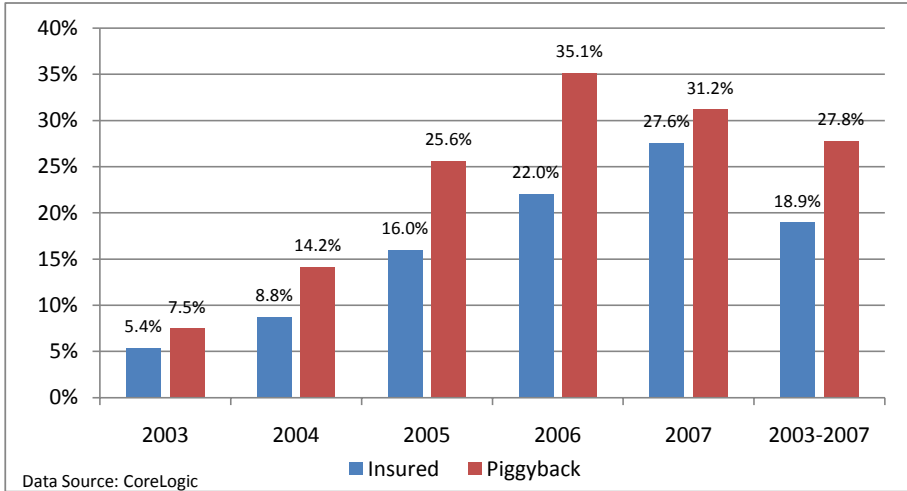
The previous study focused on loans that were currently delinquent 30+ days and loans that had terminated in default. This study takes the analysis much farther. This study reviewed the monthly status of all 4.9 million loans in the sample to see which loans were ever 90 days delinquent, and then follows the monthly status reports until the loan either cures or goes to foreclosure. Consequently, this study evaluates both the performance of the loans and also permits a review of actual cures of previous delinquencies that ultimately resulted in current status for loans still outstanding or successful payoff .

The delinquency rate for the piggyback loans is somewhat understated in that the data set only captures the delinquency rates on first liens. There are likely loans where the 1st lien is still current, but the 2nd lien is delinquent. If these delinquencies were added to the piggyback data, their delinquency rate would be even higher than shown and the differential to Insured loans would be even larger.



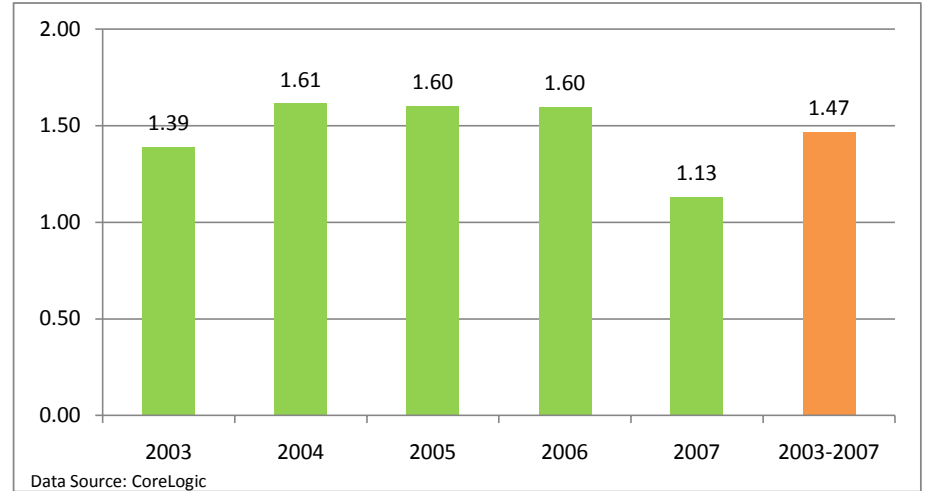
### Ever 90 Day Delinquency Rates By Origination Year

Weighting Segments By Piggyback Profile



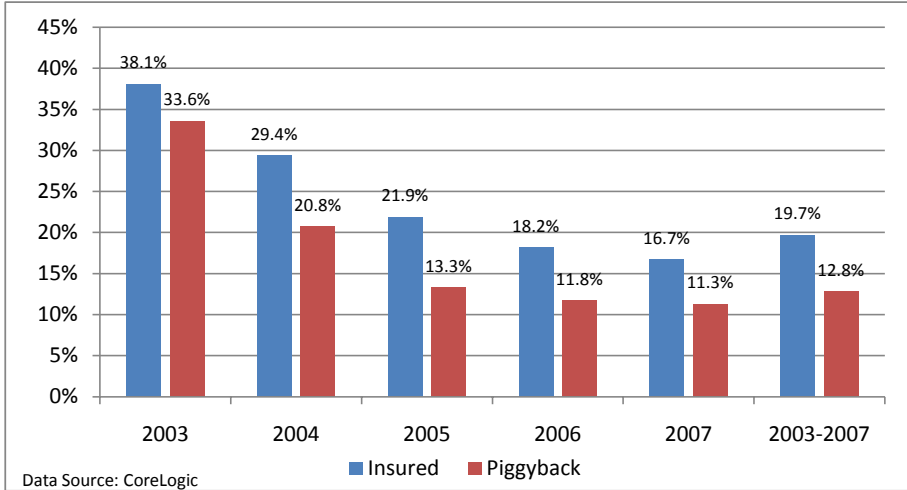
### Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates

Piggyback ETD 90 Rate / Insured ETD 90 Rate



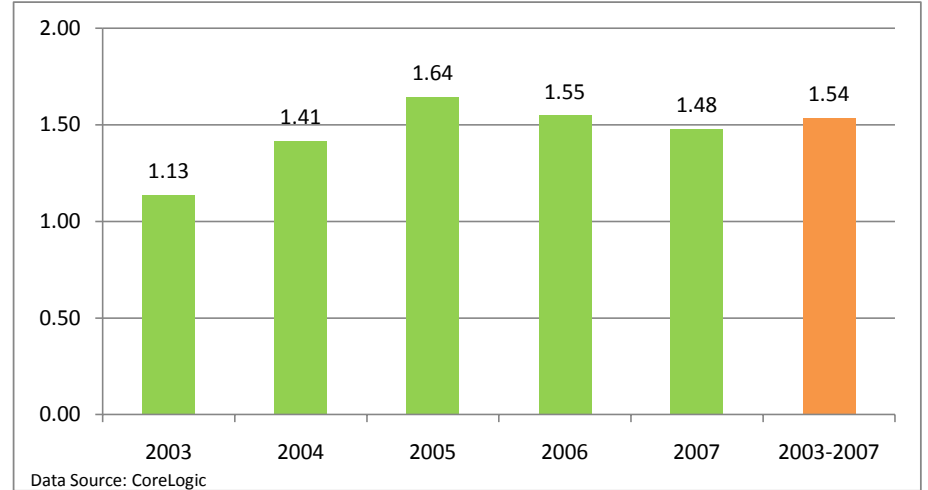
### Cure Rates On Ever 90 Day Delinquencies By Origination Year

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

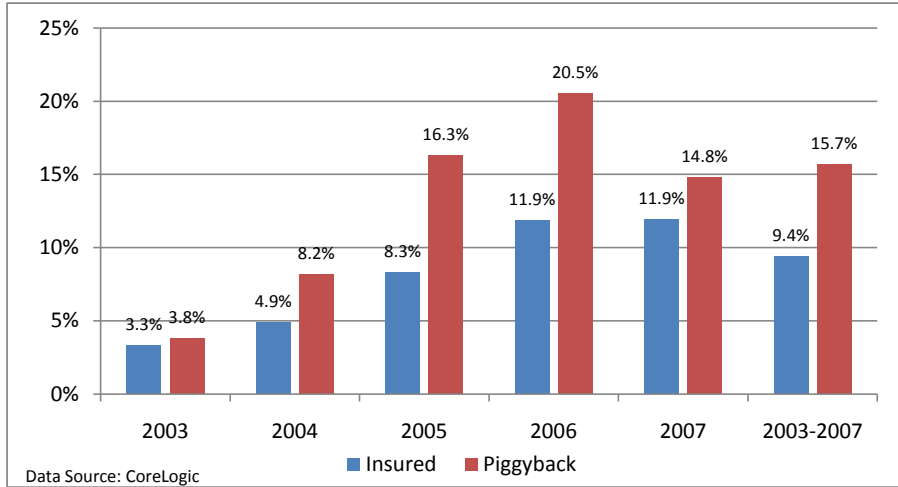
Insured Cure Rate % / Piggyback Cure Rate %



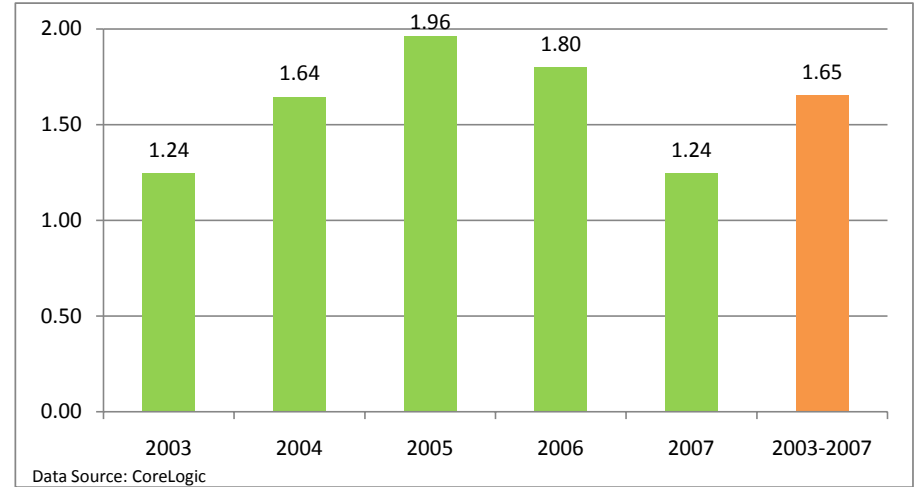
**Insured Loans Performed 47% Better than Piggyback Loans**

**Once Delinquent 90 Days Or More, Insured Loans Exhibited Cure Rates 54% Higher Than Piggybacks**

**Non-Performing Rates By Origination Year**  
 (Currently 90+ Days Delinquent & Defaults)



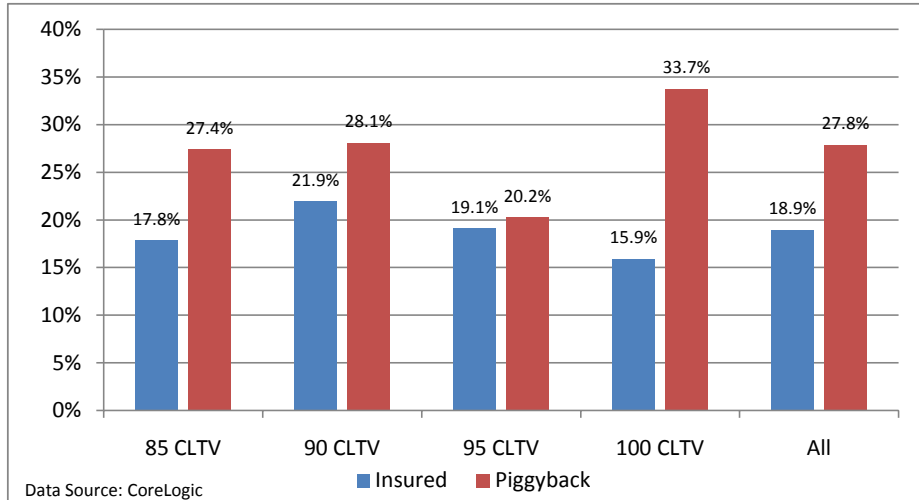
**Ratios Of Piggyback Non-Performing Rates To Insured**  
 Piggyback Non-Performing Rate / Insured Non-Performing Rate



**Lower Ever 90 Delqs Combined with More Cures Result in Insured Loans Having 65% Less Defaults (90+ & F/C)**

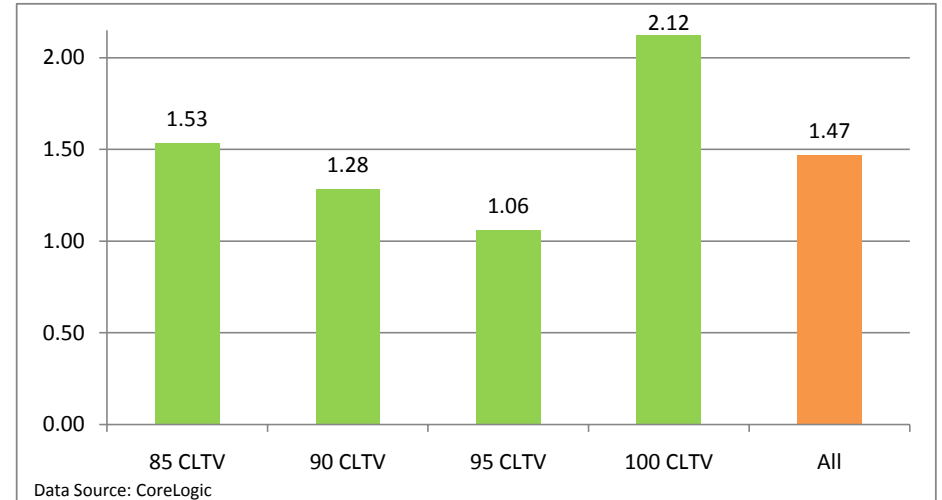
### Ever 90 Day+ Delinquency Rates By CLTV

Weighting Segments By Piggyback Profile



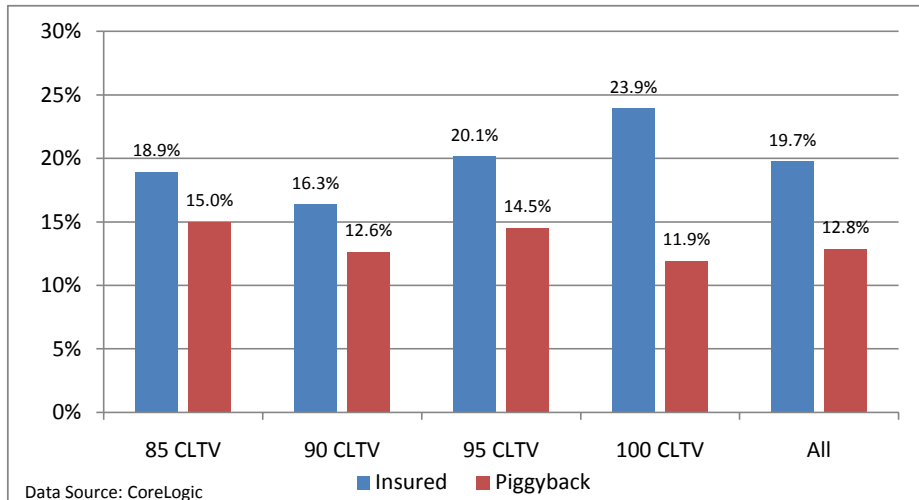
### Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates

Piggyback ETD 90 Rate / Insured ETD 90 Rate



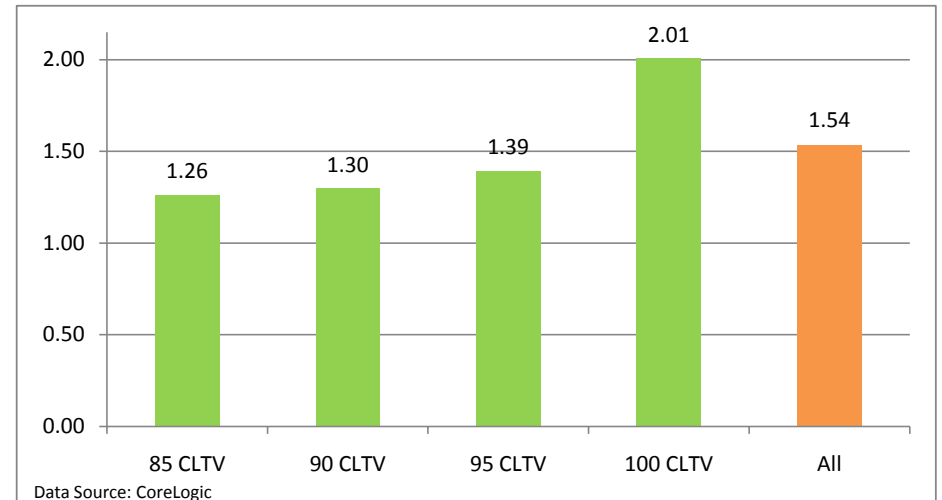
### Cure Rates On Ever 90 Day Delinquencies By CLTV

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

Insured Cure Rate / Piggyback Cure Rate

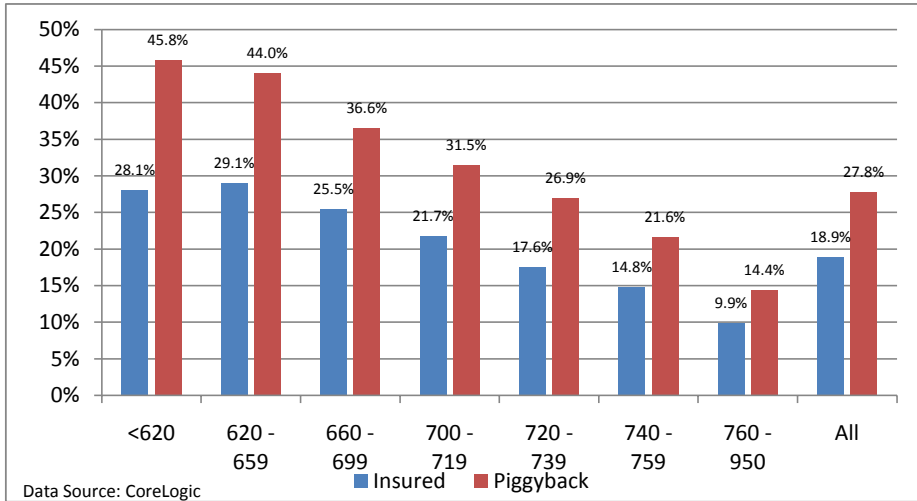


**Piggyback 90+ Delinquency Rates Were Significantly Higher For All CLTV Ranges Except For 95 CLTV**

**Nevertheless, For ALL CLTV Ranges, Including 95 CLTV, Insured Loans Had Significantly Higher Cure Rates**

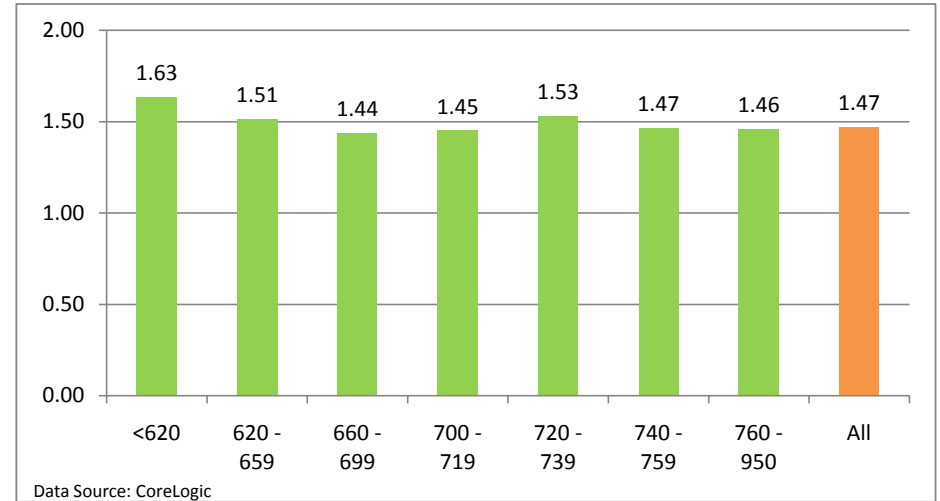
### Ever 90+ Delinquency Rates By FICO Score

Weighting Segments By Piggyback Profile



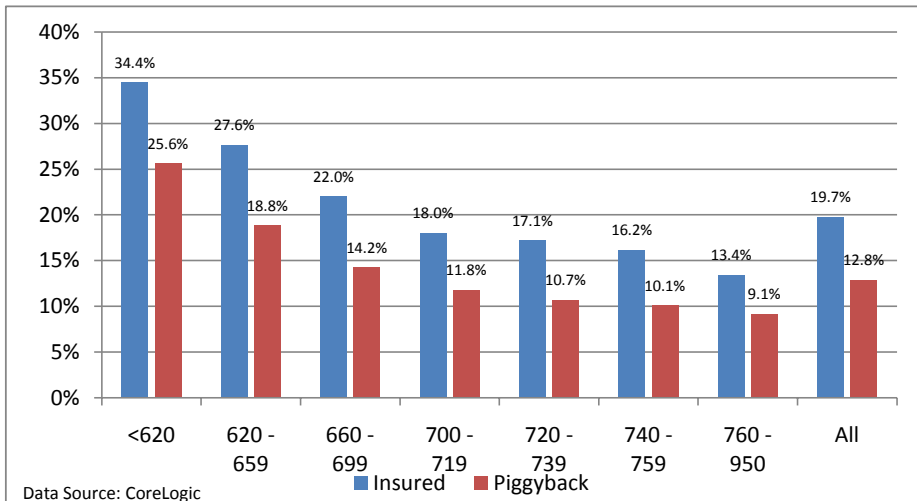
### Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates

Piggyback ETD 90 Rate / Insured ETD 90 Rate



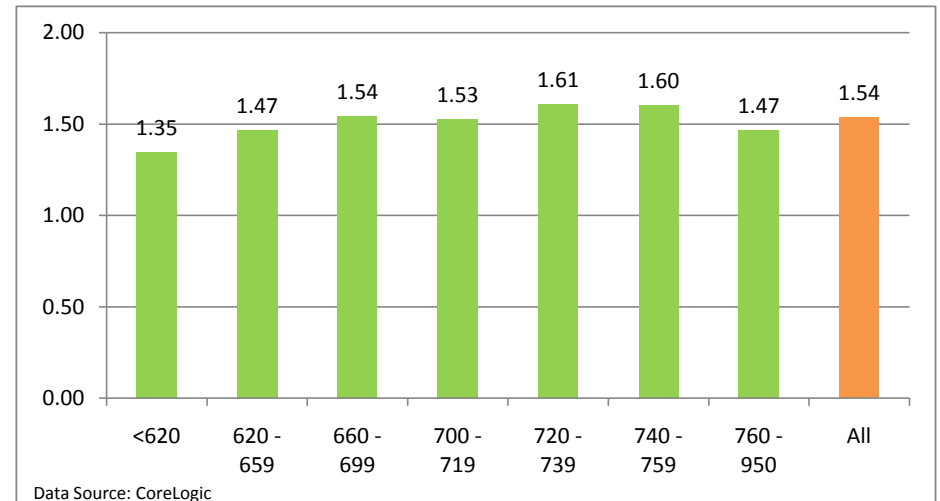
### Cure Rates On Ever 90 Day Delinquencies BY FICO Range

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

Insured Cure Rate / Piggyback Cure Rate

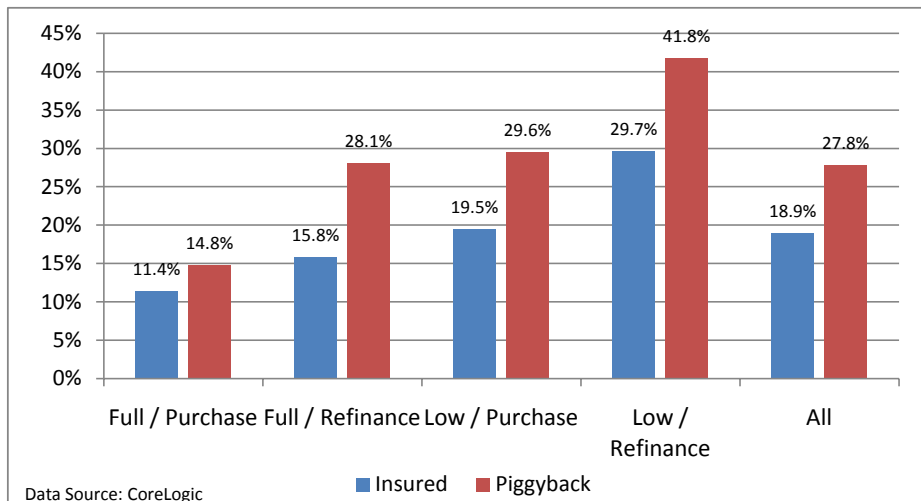


**Piggyback Performance Decidely Worse in Virtually All FICO Ranges**

**Cure Rates On Insured Loans Solidly Higher By 35% or More Depending On the FICO Range**

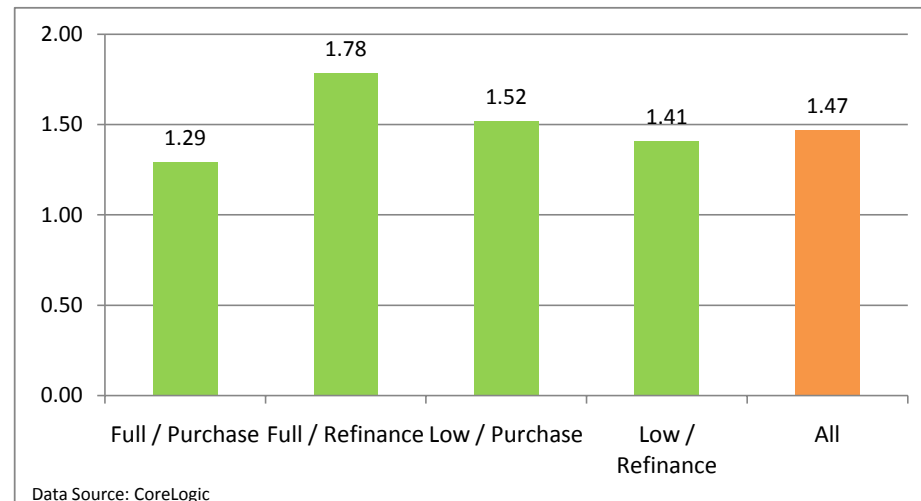
### Ever 90+ Delinquency Rates By Doc Type/Loan Purpose

Weighting Segments By Piggyback Profile



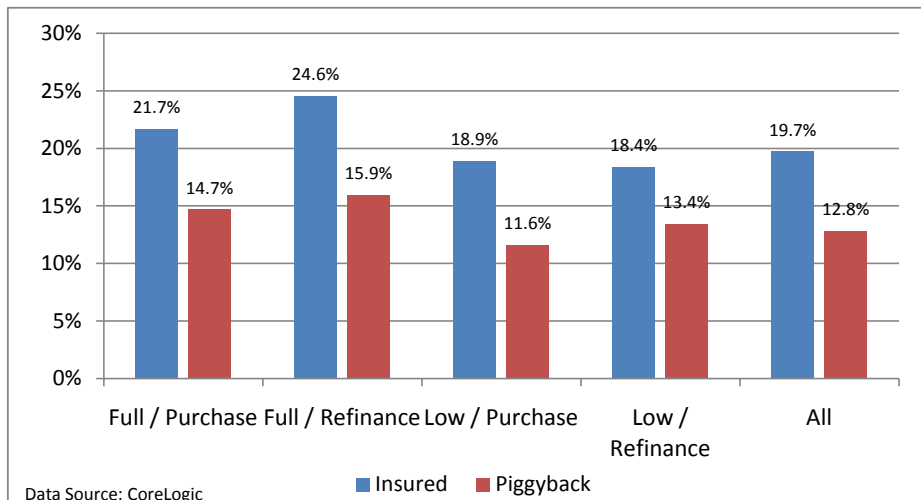
### Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates

Piggyback ETD 90 Rate / Insured ETD 90 Rate



### Cure Rates On Ever 90 Day Delqs By Doc Type/Loan Purpose

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

Insured Cure Rate / Piggyback Cure Rate

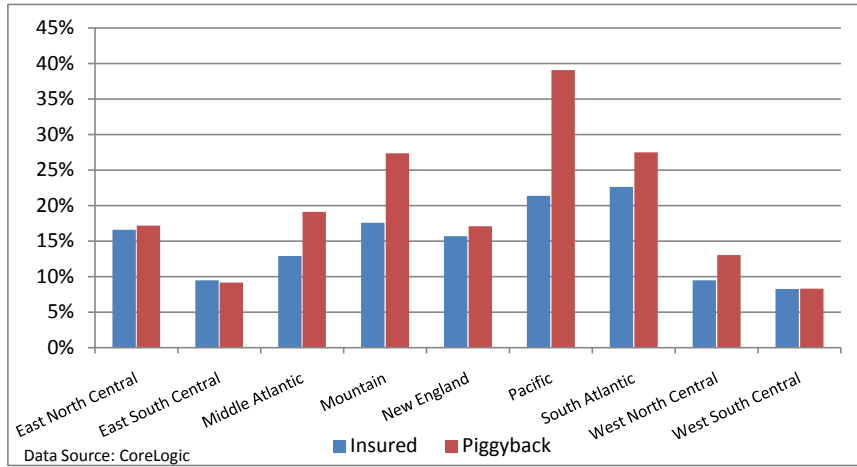


**Evaluation by Documentation & Loan Purpose Shows Insured Loans Clearly Outperform Piggybacks In Each of Segment Roll Ups**

**Insured Loan Cure Rates Were Substantially Higher in All Of These Roll -Up Combinations**

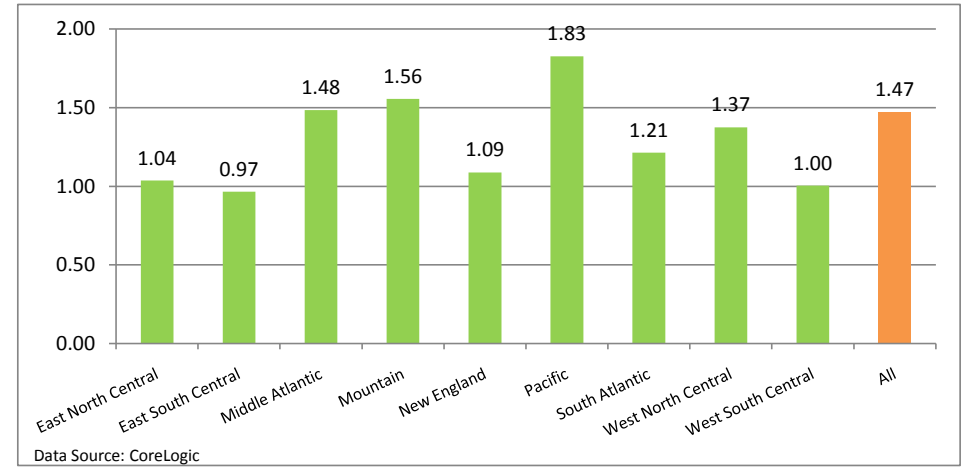
### Ever 90 Day Delinquent Rates By US Census Region

Weighting Segments By Piggyback Profile



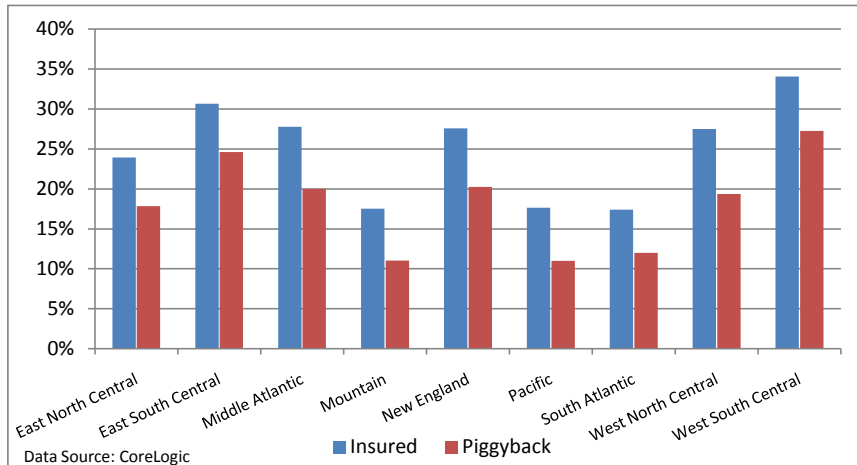
### Weighted Ratios Of Piggyback Delq Rates To Insured Delq Rates

Piggyback ETD 90 Rate / Insured ETD 90 Rate



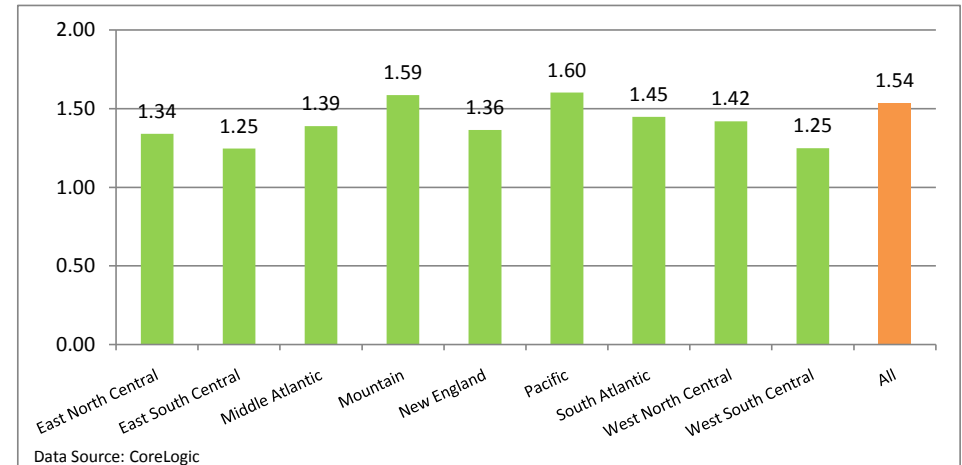
### Cure Rates On Ever 90 Day Delqs By US Census Region

Weighting Segments By Piggyback Profile



### Weighted Ratios Of Insured Cure Rates To Piggybacks

Insured Cure Rate / Piggyback Cure Rate

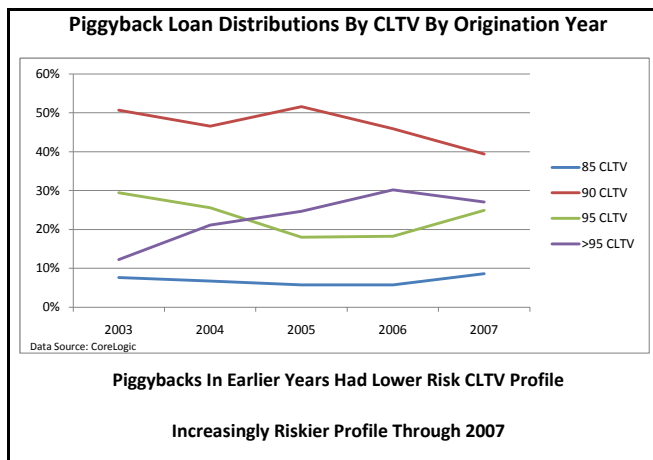
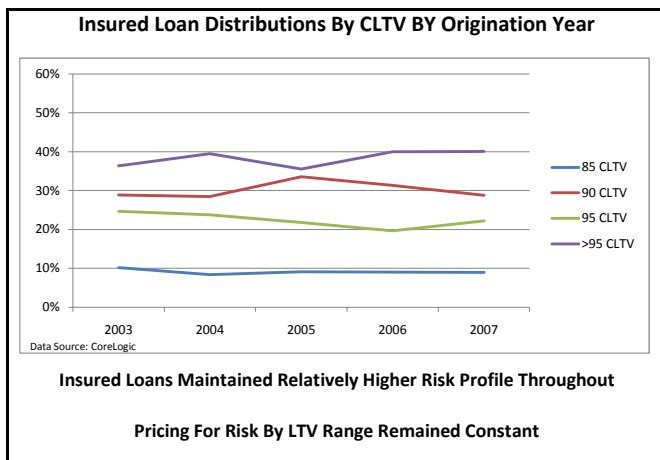
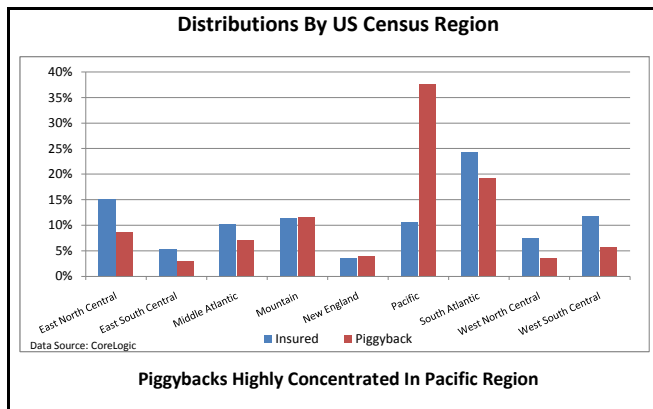
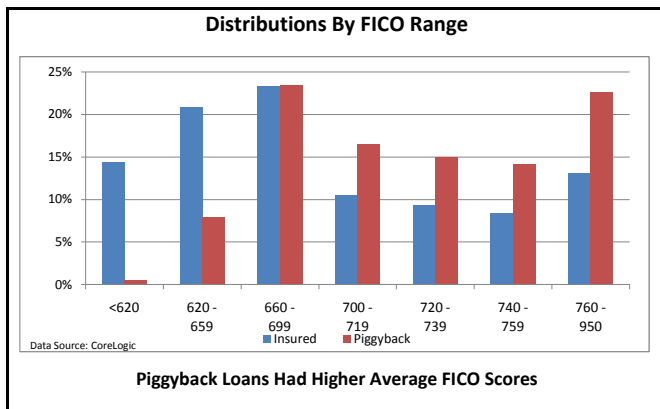
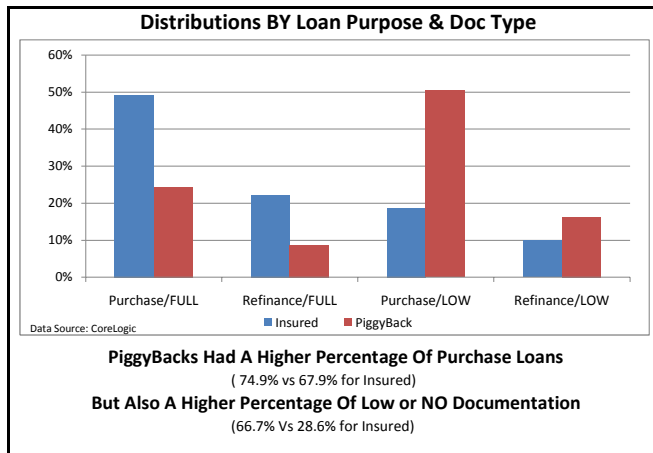
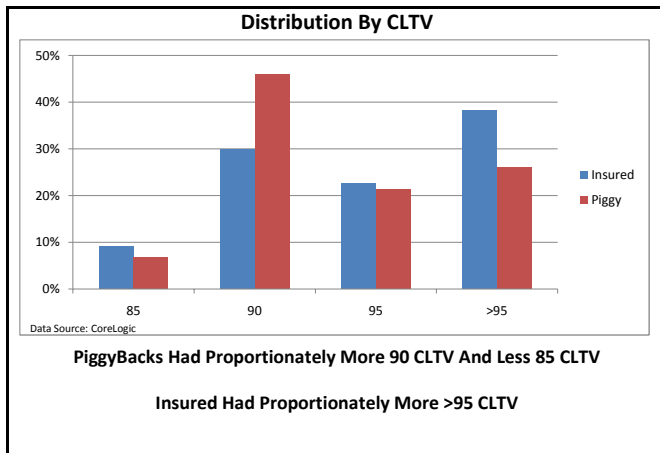


**While Ever 90 Delinquent Performance Differences Were Not Uniform Across All Regions,**

**Such Differences Were Highest In Worse Performing Regions**

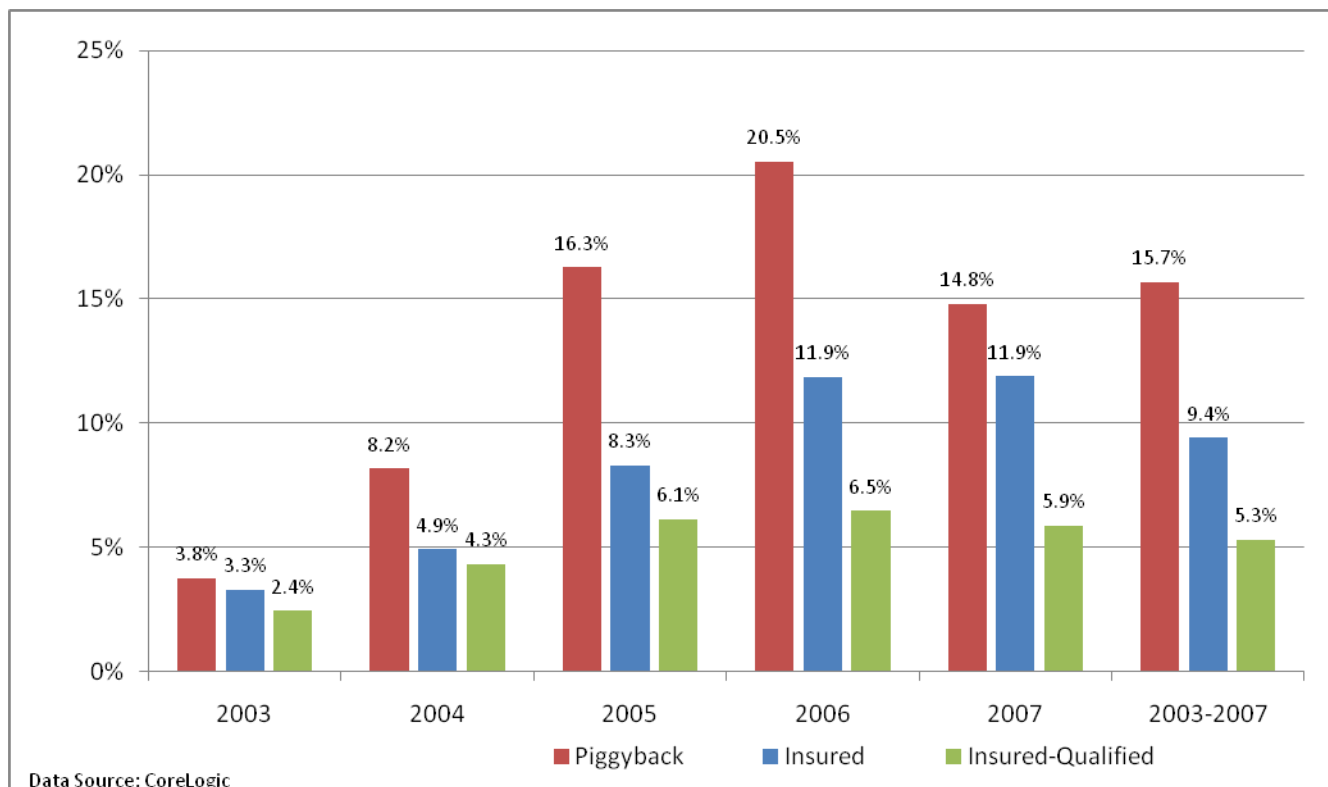
**Cure Rates On Insured Loans Remained Significantly Higher Across All US Census Regions**

## Appendix - Differences In Distributions Across Key Metrics



# Qualified Insured Loan Performance

## NON-PERFORMING RATES\*



**“Qualified” Insured Loans Have Performed Well Through the Downturn**

\* Non-Performing Rate:  $(\# \text{ Loans Currently 90 or more days delinquent} + \text{loans that terminated in default}) / \text{original number of loans}$