

***Borrower qualifications*** – The excellent credit profile, high liquid reserve amount, and low equity position make both loans very low risk.

A joint credit report was pulled for Christopher Dodd and Jackie Clegg Dodd on April 17, 2003 and was utilized in both loan files reviewed. This report revealed credit scores of 768 for the borrower (Christopher Dodd) and 821 for the co-borrower (Jackie Clegg Dodd). These credit scores are considered "Excellent" by industry standards.

The housing history documented by internal lender verifications (as the Borrowers were existing customers) and the credit report do not indicate any late payments on the Borrowers' existing mortgage accounts. The credit report also reveals the lack of any substantial amount of consumer debt by the Borrowers, which further elevates credit worthiness.

The Borrowers' debt-to-income ratios were within the Lender's and generally accepted guidelines and demonstrate strong capacity to repay the loan. The housing debt-to income ratio, which is the percentage of the Borrowers' monthly income required to pay the mortgage obligation was 16.35%; and the total obligation ratio, which is the percentage of the Borrowers' monthly income required to pay all monthly liabilities including the new mortgage, was 39.54%. These ratios were calculated using only the primary borrower's verified income. The co-borrower's income was not needed on the Washington, DC loan because primary borrower's verified income alone resulted in a conservative debt-to-income ratio that was more than sufficient for qualifying. Similarly, the Lender's underwriting guidelines did not require either borrower to provide income documentation on the Connecticut loan to qualify for the program.

The loan-to-value ratios were 63.89% and 55%/65% (65% represents the combined loan-to-value when factoring in the \$50,000 subordinate HELOC loan that closed simultaneously with the Connecticut loan). The loan-to-value ratios were supported by a full appraisal on Washington, DC loan and an automated valuation tool (as accepted by Lender's guidelines) on the Connecticut loan. These ratios demonstrate a strong equity position by the Borrowers in both properties.

The underwriting documents in file concerning the Washington, DC loan indicate a reserve amount of \$35,836.29 was used to qualify the Borrowers. Bank documents provided by the Borrowers verify two month average liquid reserves of \$72,962, more than double the qualifying amount needed. The borrower's strong stability was supported by 24 years in the current position.

***File processing and underwriting*** – There were no underwriting exceptions noted in the file by the Lender or during our review. The documentation required and gathered for both files was consistent with the loan program being utilized.

The Washington, DC loan was a cash-out refinance transaction that required full documentation surrounding income and reserves as well as a full appraisal. The Borrowers provided income documentation, bank statements, and the appraisal fee of \$485.00.

The Connecticut loan was a streamline refinance transaction with a HELOC subordinate lien of \$50,000. It is a commonly accepted industry practice to not require income or reserve documentation for a streamline refinance transaction. Furthermore, automated valuation tools are accepted on these transactions as the Lender is the current lien holder and cash out is not allowed. The documentation found in the Connecticut loan file was in line with a streamline refinance. With approximately 48 days to close the Connecticut loan and 70 days to close the Washington, DC loan, it is reasonable to conclude (without access to internal lender system comments) that normal processing timelines were followed.

***Term and conditions received*** – The Washington, DC loan was closed on a 30-year note with the first five years at a fixed rate of 4.25%. The Connecticut loan was closed on a 30-year note with the first ten years at a fixed rate of 4.50%. The Borrowers were not required to pay discount points or float down fees on either transaction.

Many factors are considered when a lender determines an interest rate and points or fees to charge a borrower, such as credit score, loan-to-value ratio, debt-to-income ratio, loan program, loan amount, and borrower retention. We conclude that several factors exist that would prompt the lender to provide the most competitive rates and points and fees (including "zero points" and no "float down" fees) available at the time. First, the Borrowers were existing, perfect-paying customers of the Lender, placing the Borrowers in a position to negotiate the best terms or simply take their business elsewhere. Second, the Borrowers' excellent credit profile, liquid reserves, low debt ratio, and strong equity positions (loan-to-values of only 63.89% and 55%) only enhance bargaining power. Third, average rates and points are for average borrowers. The Borrowers were well above average in their willingness to repay (credit), capacity to repay (debt ratio and reserves), and equity positions. This profile would demand the best market rates and points during any time period, especially to an existing borrower at these loan amounts.

In addition, national interest rates were dropping weekly from the time of application to the closing date. This would prompt the Lender to provide the best possible loan terms to retain the Borrowers. (See Initial fees and charges, below).

***Initial fees and charges*** – We conclude that the fees and charges on both loans are consistent with what any consumer with similar credit quality, reserve amounts, and equity positions could have received during the time period.

The review of both HUD settlement statements revealed that the Borrowers paid settlement charges of \$4,209.99 for the Washington, DC loan and \$2,800.18 for the Connecticut loan. In order to compare these figures to published national averages during the time period, we deducted the amounts paid for prepaid interest charges, property taxes, and insurance. Therefore, the initial fees and charges paid by the Borrowers were \$2,286.30 (0.45% of the loan) for Washington, DC loan and \$2,020.25 (0.73% of the loan) for the Connecticut loan. Published reports by the Federal Housing Finance Board during 2003 confirm that national averages for initial fees and charges were 0.35%, 0.33%, and 0.37% for May, June, and July respectively. In other words, the fees and charges paid by the Borrowers were higher than the national average.

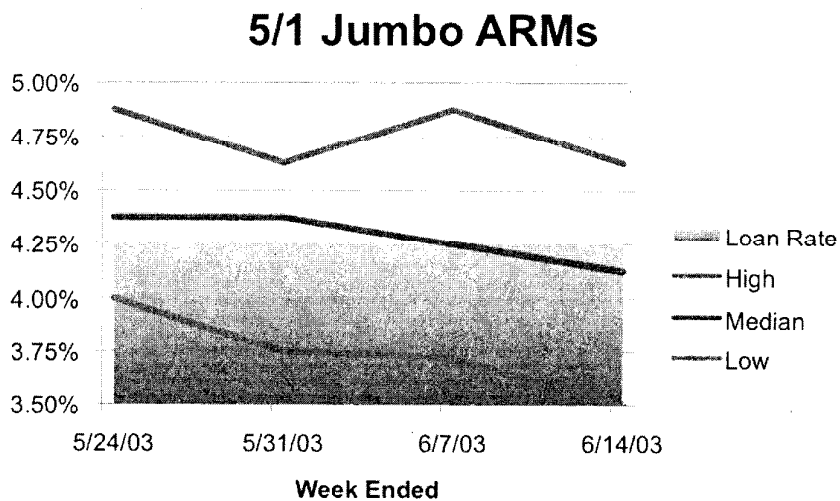
Our review of the files disclosed no rate lock or float down fees charged by the Lender. This is consistent with the mortgage market at the time, in which lenders would offer very attractive terms to existing, high-quality borrowers in order to avoid having them refinance with other lenders.

### Analysis and Comparison of Rates and Fees from Mortgage Lenders

We obtained market mortgage loan rates from variety of sources, including financial publishers, mortgage lender rate sheets, and rates published in newspapers. We compared this data with the terms obtained by the Borrowers. The rates we reviewed were for the same products (5/1 Jumbo ARMs and 10/1 ARMs) as the subject loans and required no points. In fact, the overwhelming majority of published loan rates indicated no points were required. Furthermore, the published market rates allowed for significantly higher loan-to-value ratios than those of the subject loans.

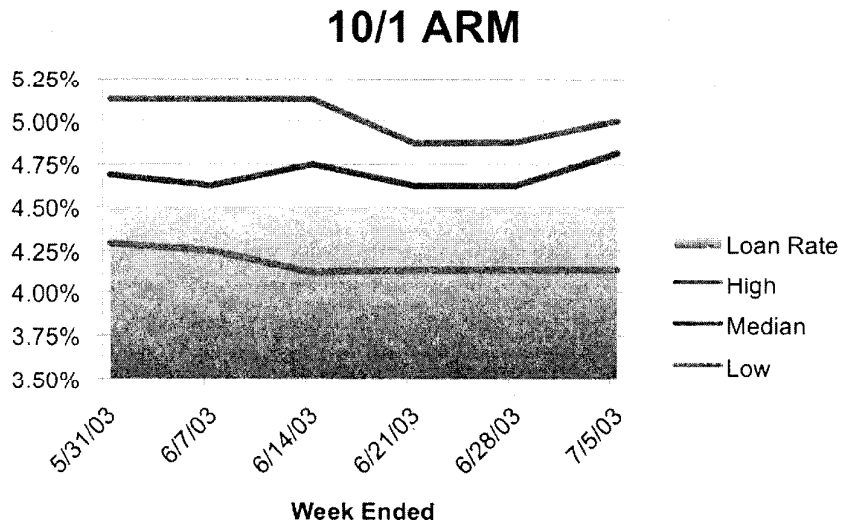
#### Interest Rates

We found that the range of market rates bracketed the subject loans, indicating that the subject loans were originated at rates consistent with the market.



The chart above shows the range and average of available interest rates for 5/1 Jumbo ARMs and the interest rate on the Washington, DC loan. This loan was rate-locked on 5/22/2003 and closed on 6/10/2003. We noted that rates lower than that of the Washington, DC loan were available in the market, and that rates were steadily falling during the period from application to rate lock to funding.

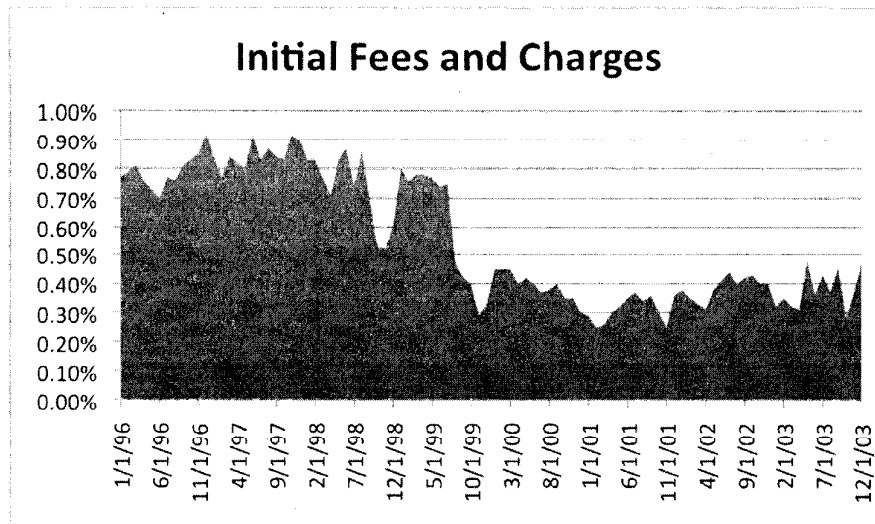
The chart below shows the range and average of available interest rates for 10/1 ARMs and the interest rate on the Connecticut loan, which closed on 7/3/2003. We again noted that rates lower than that of the loan reviewed were available in the market.



We believe that given the Borrowers' excellent qualifications, they would have been able to obtain an equal or lower rate from other lenders.

#### **Initial Fees and Charges**

National averages for initial fees and charges (which does not include points) had fallen significantly in the 1999-2000 period, and remained low through 2003 (see chart below). As previously noted, the Borrowers paid initial fees and charges in excess of national averages.



Source: Federal Housing Finance Board

### Review of Published Reports and Studies

The following are excerpts from published reports and studies that support conclusions made in this report:

*Boston Globe*, July 6, 2003, Thomas Grillo – Globe Correspondent, "Options to Buy – In a Fiercely Competitive Market With Low Interest Rates, Borrowers Need Not Be Locked In By 30-Year Mortgages"

"Christopher Tejada, who bought a four bedroom Colonial in Acton last year for \$771,000, thought he was getting an unbeatable mortgage rate when he locked in at 5.875 percent on a 30-year fixed-rate loan. But as rates kept falling, the 39-year old commodities trader switched in the spring to a so called hybrid mortgage – a 5/1 adjustable rate mortgage, or ARM, at 4.25 percent. The loan rate stays the same for five years, after which it can climb as high as 9.25 percent."

*The Washington Post*, May 23, 2003, Sandra Fleishman – Washington Post Staff Writer, "Rush to Refinance – Homeowners Flock to Lenders as Rates Drop"

"Mortgage rate set yet another new low this week, the seventh record this year and the second week running. And Americans are responding, taking out loans to buy and refinance homes at a furious pace."

"Gaming for the lowest rate seems to be particularly attractive to refinancers, who accounted for 76% of mortgage applications last week, according to the Mortgage Bankers Association."

“Some lenders are responding to competition by offering no-fee float downs to current customers in order to keep them.”

*USA Today* – March 21, 2003 – “Take the Trick Out of Refinancing; Do Your Homework First to Avoid Mumbo Jumbo”

“The big industry players who write rules on who gets a mortgage and under what terms cut a lot of slack to lenders who want to retain customers by quickly swapping one mortgage for another at better terms. The Federal Housing Administration, the Veterans Administration, Fannie Mae, and Freddie Mac all have rules that streamline procedures for a lender dealing with an existing customer.

For the borrower, it can mean cheaper, quicker refinancing than would be the case if the customer went to a new lender to refinance. Lind (Matt Lind, a mortgage industry consultant at the Stratmor Group) says originating a mortgage under streamlined refinance rules can be thousands of dollars cheaper for the lender. Just how much of the savings gets passed along to the borrower varies by lender, he says.”

*USA Today* – May 9, 2003 – “Many Select Hybrid Mortgage; Despite Tempting Fixed Rates, Some Gamble on Lower Offerings”

“Noting the popularity of 5/1 hybrids, Fannie Mae, the giant mortgage investor, has announced a change that could fuel their popularity even more. Starting this month, Vice President Denise Grant says, Fannie Mae is standardizing terms for the 5/1 hybrid mortgages that it pools for bond investors.

Fannie Mae’s action effectively opens wider the spigot of money from the bond market available to fund 5/1 mortgages, industry experts say. As a result, lenders are likely to push a little harder to promote 5/1 loans to borrowers, and borrower might benefit from slightly cheaper initial interest rates.”

The Joint Center for Housing Studies of Harvard University – 2004, *The State of the Nation’s Housing*

“With interest rates near 45-year lows, homes sales and mortgage refinances reach new heights in 2003. Existing single family home sales climbed 9.6 percent and new single family home sales rose 11.5%, while mortgage refinances shot up by an astounding 71 percent.”

“These mortgage giants compete fiercely and harvest massive amounts of information to find new ways to improve their operations. Using low-cost marketing and outreach techniques, mortgage lenders battle to attract customers during refinance booms. While homeowners once had to figure out for themselves when it was advantageous to refinance, some lenders now alert them to the opportunity and encourage them to do so – at lower cost- with lender affiliates. This competition has spurred additional refinance activity.”

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“Initial fee mortgage fees and charges as a percent of loan value dropped from a high of 2.6 percent in 1982 to a low of about 0.4 percent in 2003. As a result, rather than a full percentage point or more, it now takes only 50 basis-point dip in mortgage rates to trigger a wave of refinancing activity.”

Federal Housing Finance Board – Monthly Press Release – July 25, 2003, *Federal Housing Finance Board Reports Continued Lower Mortgage Interest Rates*

“The average contract rate on adjustable-rate mortgage (ARMs) decreased 28 basis points to 4.65 percent. In initial fees and charges were 0.33 percent of the loan balance in June, down from 0.35 percent in May. Sixty-five percent of the purchase-money mortgage loans originated in June were “no points” mortgages, unchanged from May.”