

**PRESENTATION, INTERACTIVITY QUESTIONS
AND A FEW PHOTOS FROM THE SHOW**

Day 2 Session 3 ARTIFICIAL INTELLIGENCE

**QUESTIONS, COMPLAINTS, REQUESTS FOR PHOTOS, PLEASE CONTACT
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15, 16, 17 NOVEMBER 2009

ARTIFICIAL INTELLIGENCE

Finding relative value in house prices

While blame for the current crisis continues to shift among policymakers and the general public, one thing is clear: The crisis gained traction when house price appreciation ground to a halt. Although we know that the most important variable in the entire lending process is the valuation of collateral and the surveillance of collateral risk, we also know that despite the most advanced technology and modeling techniques, all valuation is subject to human behavior and opinion. The ultimate "price" is the price that a potential buyer is willing to pay for it. Thus, the value of house prices is relative to your position in the market. In particular, which side of the risk you are on – the buy side or the sell side? Of the many factors that add fuel to the current fire, the increase in the number of homeowners in negative equity positions directly impacts prospects for house price recovery. How will the inevitable rise in the number of

foreclosures further depress house prices? A recent report by Deutsche Bank suggests that the continued decline of U.S. home prices will contribute to rapidly rising rates of negative equity and projects that over the next two years, an additional 11 million households will be underwater, bringing the total to as many as 25 million households. Which came first? The chicken or the egg? Or is the housing boom and bust of the last decade, as suggested by a recent report by the New York Fed, more the result of shifts in economic fundamentals – especially, swings in labor productivity – than of "bubbles" and credit market irregularities. The most important question may perhaps be the most difficult to answer: When will we hit the bottom?

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09:45 – 12:00 SESSION 3

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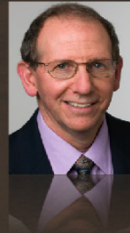
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Day Two – Interactivity questions, comments from Session 3

1. How might we stabilize value? It is tools, policy?
2. Servicers need an as is, property will be vacant and will be sold by the mortgager servicer within a targeted 90 to 120 day marketing period. A value of Mr. Jones selling to Mr. Smith does not apply. The assumption must be the interior condition will be consistent with the exterior condition
3. Values are 'stabilized' when they reach a bottom based on fundamentals. It doesn't require us to do anything
4. Prices change by supply and demand in the market. It is a free market – what a buyer will pay and a seller accept
5. In an REO situation you don't have a buyer until the property has been marketed – and the BPO or appraisal is typically being used to set the initial list price so you don't have the buyer seller relationship yet
6. There is fundamental flaw in the comp-BPO process. It makes a fundamental assumption that properties around a specific property are the principle basis for beginning the valuation. In fact it is the demographics of the buyer and then the property that determine its value. For example, a property in one area is competing with properties that are a demographic fit in another. If the subject property is priced higher than another in a different area, but fits the same needs for the subject buyer, it sells for less. Also, it is a function of the buyer-seller ratio. A 1:1 ratio of buyers to sellers versus 5:1 results in multiple offers and a higher price
7. What valuation products to your clients prefer?
8. What is the valuation profession doing to invent new solutions that look at the real market conditions of today like sales, listings, and a data rich forecast rather than trying to relay information on antiquated forms?
9. Will appraisal always be inherently backward looking?
10. That's correct – valuations are a subjective opinion – but true market value comes from what is transacted
11. The true mark to market happens every days as homes go into foreclosure in various neighborhoods, cities and towns across America. Value changes monthly. How would you suggest we use data to predict value?

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Day Two – Interactivity questions, comments from Session 3 (continued)

12. Why are appraisals given more weight than the BPO's when the real person who is in the trenches selling the assets is the REO brokers who have a better pulse of the local market and buyers?
13. Based on the value range concept why are we not valuating communities for stabilization purposes and using this data to resolve the influx of REO's and the disposition process
14. What are the best tools to look at future values for looking at modification, short sale and REO options? If servicers could better see market direction based on future delinquencies/distressed sales, it may drive different decisions at present time
15. Can you compare the various products and the usage of MLS data now in addition to county data and comps?
16. Appraisal Value is for the lender. BPO is for the buyer
17. Totally agree with 15 ("What are the best tools to look at future values for looking at modification, short sale and REO options? If servicers could better see market direction based on future delinquencies/distressed sales, it may drive different decisions at present time") – A micro market view on HPI is critical for servicers and investors to devise portfolio strategies
18. Response to 13 ("Why are appraisals given more weight than the BPO's when the real person who is in the trenches selling the assets is the REO brokers who have a better pulse of the local market and buyers?") – properties don't sell via short sale due to servicers receiving inflated BPO's
19. 3 years ago desktop AVMs using MLS data could come within dollars of full appraisals? Its macro and micro together that gives us what we need today. Predictability...
20. Appraisers values are historical and somewhat backward looking. When markets are changing rapidly, they are either too low or too high. Brokers' feet are held to the fire as well when they have to sell the property for what they said it was worth – they are more accountable
21. Agree with 19 ("Properties don't sell via short sale due to servicers receiving inflated BPO's") – short sales are totally out there to get done if realistic values were established and understood by the servicers. major losses could be avoided
22. Recency versus proximity if homes are comparable? Appraisers do not adequately take into account there are 10 REO's in the same area for sale and 10 more foreclosures about to complete

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23. Do appraisals take into consideration whether a property has an HOA and the financing available because that effects the price and value for which it will sell?
24. Agree with 21 up to a point. Being held accountable to sell for the number often leads to BPOs with built in haircuts
25. Do values into acct the work needed to be performed to bring distressed property up to a level that a buyer would expect
26. Rather than saying one (appr, BPO, AVM) is better than the other, a different paradigm could be use all the methods complimentary of each other
27. Yes to 27 (“Rather than saying one (appr, BPO, AVM) is better than the other, a different paradigm could be use all the methods complimentary of each other”). Why would any servicer base their actions on one, single value?
28. Exactly when you step into the experiment you change the experiment. So is there a portion of the answer here? Creating and adopting a set of agreed upon approaches can yield stability?
29. But even the indexes have a 2-3 month lag. Data by zip gives you a good sample and real-time trending
30. Value reconciliation from a variety of sources is common for special servicing. but investors must be willing to pay the cost
31. Aren’t the trends associated with the house and the loan type related to the way the broker is marketing the REO vs. the loan type? Buyers have no idea of the loan type
32. Small difference in paying for valuation could be huge return with a better loss mitigation outcome
33. What would happen if the appraisal lobby is successful in restricting alternate valuation methods (AVMs and BPOs)? How much would that slow down the flow of information and how much would that increase the costs of due diligence?
34. So... hValue = dirt + ebay reclamation sales+ BTU's of burn value on remaining material?
35. Andrew: why would you coorelate to zip codes when census tracts and block groups are HUD standard areas of measure and implicity should be the basis for FHA?

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Day Two – Interactivity questions, comments from Session 3 (continued)

36. If you could design the 'PERFECT' hybrid valuation product, what would that be?
37. To Andrew: How is this not Garbage in Garbage out? The appraisers, in most cases were the root of the problem, but that is what you are using as the glue for your valuations!?
38. Are there any tools/services that compare appraised value to what borrower thinks that their property is worth? if borrower has inflated sense of property value may impact their willingness to make mortgage payments or willingness to pursue a short sale?
39. To Andy: what powers does FHFA have over the GSE's in its conservatorship role? In valuation methodology? In disposition process?
40. Bravo Mark!
41. Shouldn't average rent rates be part of evaluation process considering the increase in non traditional / suburban areas
42. Mark is absolutely right – list price trends, with larger sample sizes – lead sold prices
43. Given the delay in pool processing what future value calculation tools are available?
44. RE: Q38 (“To Andrew: How is this not Garbage in Garbage out? The appraisers, in most cases were the root of the problem, but that is what you are using as the glue for your valuations!?”) – AND you just use only Fannie/Freddie data – HELLO
45. What prices do GSE's use for their HAMP qualifications?
46. In a short sale scenario, why do servicers refuse to release the value of a property that would allow it to sell?
47. Waiting for a view on current market value until reo is way too late!!!! should have a constant view on value to determine

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Day Two – Interactivity questions, comments from Session 3 (continued)

48. Where do you see the blue line headed?
49. What year are we back to 0 line? what years prices does that represent?
50. What is the date where they both hit 0?
51. Good question 46 (“what prices do GSE's use for their HAMP qualifications?”) – What is the answer?
52. Would anyone on the panel buy a house without an appraisal or with just an AVM? Or anyone in the audience?
53. Sure. An informed buyer should be doing their own appraisal and no relying on someone else
54. Do you project purchase rate to stay steady going forward when u project months of inventory?
55. Future bank failures?
56. As HAMP cycles through and we mod what we can, how will short sales impact the values?
57. To Panelists: how quickly will prices drop when government intervention ends?
58. If short sale volume really accelerated could this significantly reduce REO volume and mitigate the decline in housing prices – perhaps benefiting many other aspects of value?
59. How does a buyer become informed about value? Isn't that the purpose of the appraisal and BPO's?
60. How viable is trustee sale vs. short sale or REO? Price might be lower but certainly the fees and carrying costs will be massively lower
61. Kyle: What are the main drivers of your increase in REO inventory? It sounds like Ingrid is doing everything she can to keep REO off the market. Is there a catalyst that gets banks/servicers to push the pig through the python?

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Day Two – Interactivity questions, comments from Session 3 (continued)

62. Mark: as right as you are why is there no cooperation from servicers and investors alike to execute effective short sales?
63. Re Q60 (“How does a buyer become informed about value? Isn't that the purpose of the appraisal and BPO's?") – that IS the reason for an appr/BPO
64. There is still some pride of ownership with a short-sale, this helps the sales price
65. Short sale is often occupied property maintained in lived in condition vs. a foreclosed property where buyer is buying as is – expecting huge discount due to buying process. scares away most inexperienced buyers
66. Short sale also has 2nd and 3rd liens that are unrealistic
67. Contrast pricing with stability
68. The comparison of the two indices is not even close. The First American index is vastly more correlative of the actual values. The data is just deeper
69. This slide illustrates that you HAVE to deal in local terms
70. Headwinds such as the government ceasing to lend 100 percent ltv at super cheapo rates

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Artificial Intelligence: Finding Relative Value in House Prices



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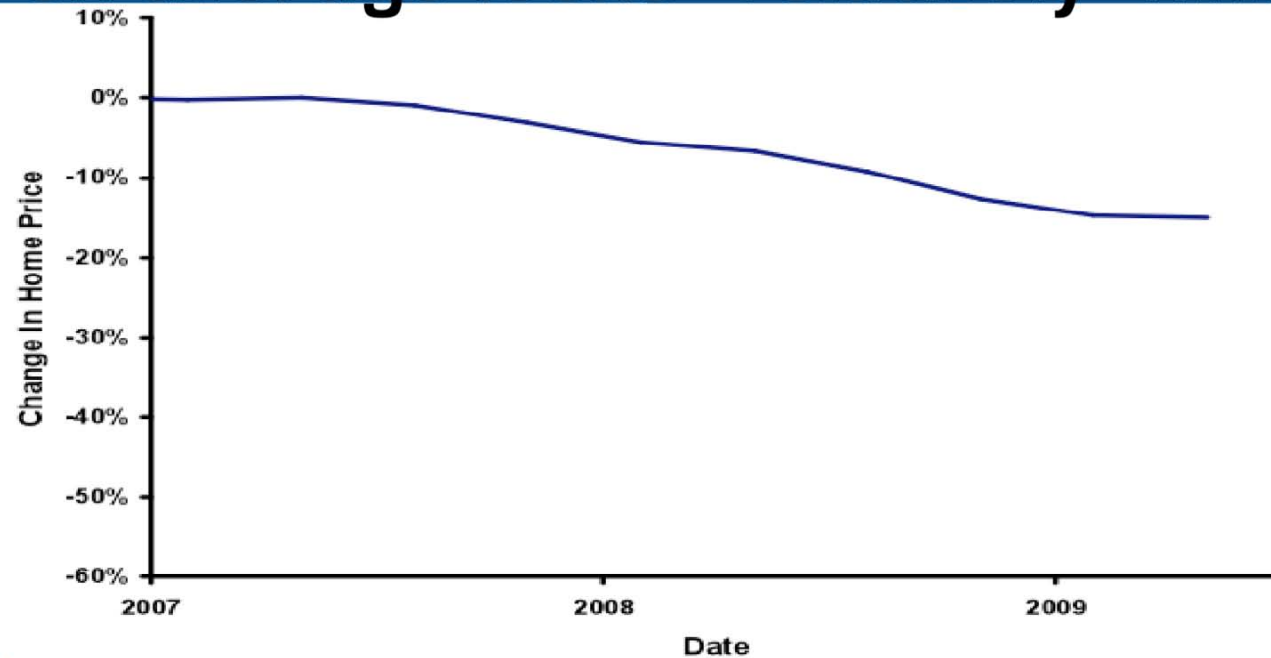


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Looking at U.S. house price change on average looks “relatively” mild



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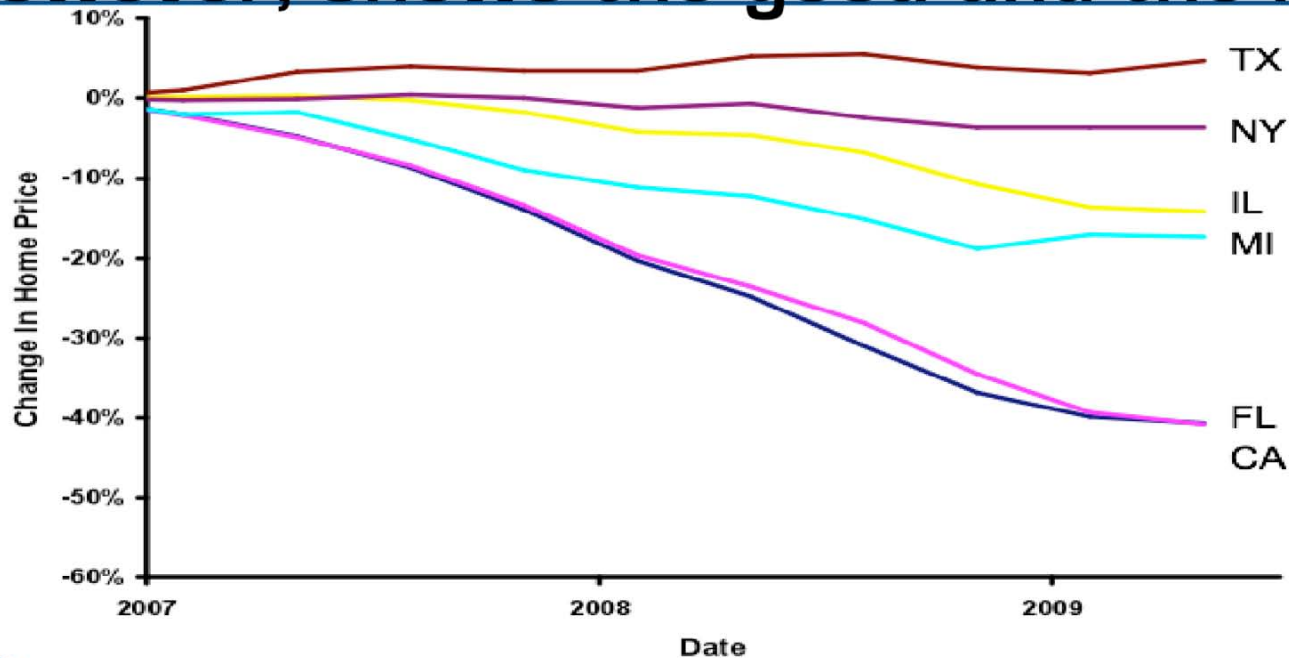


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Looking at representative states, however, shows the good and the bad



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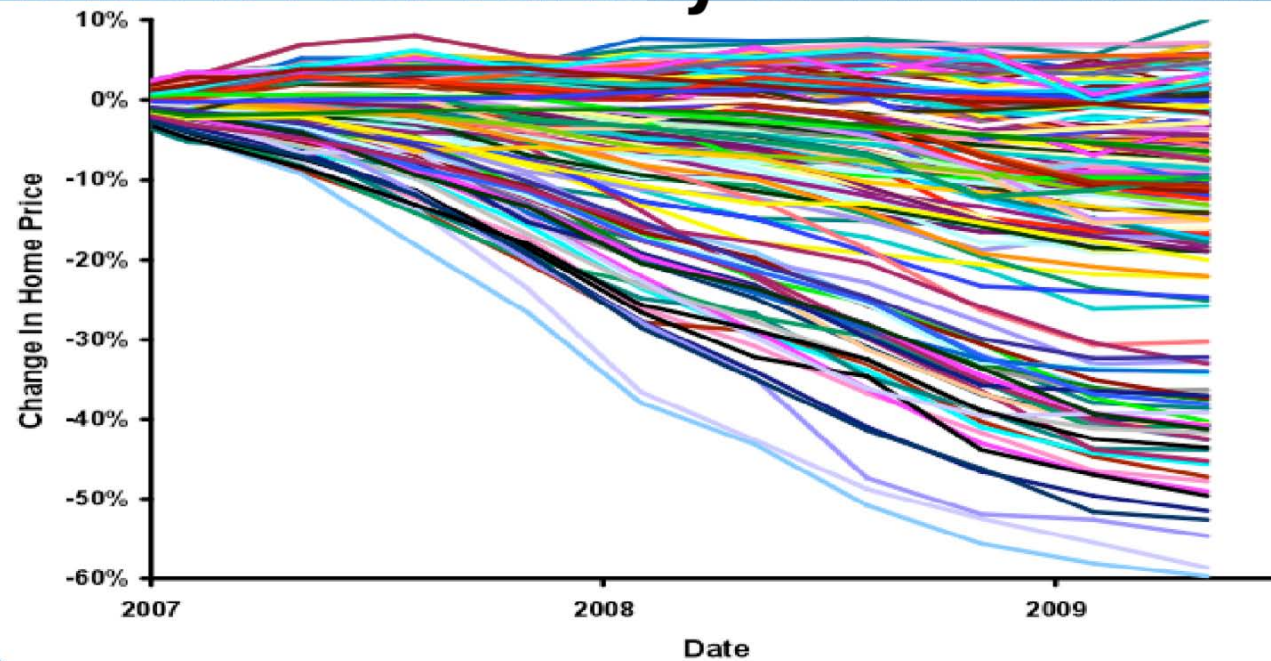


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Drilling down to the top 300 MSAs shows a real variety of HPI outcomes



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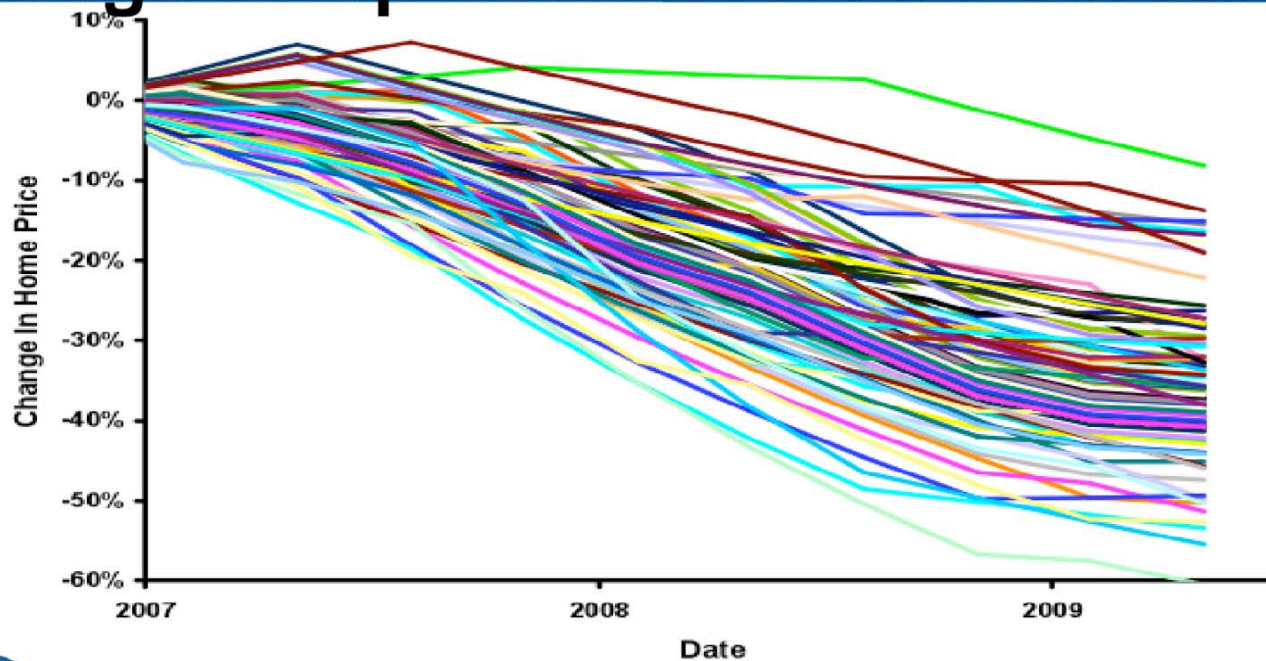


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Even in an MSA like LA, there's a wide range of zip code-level HPI outcomes



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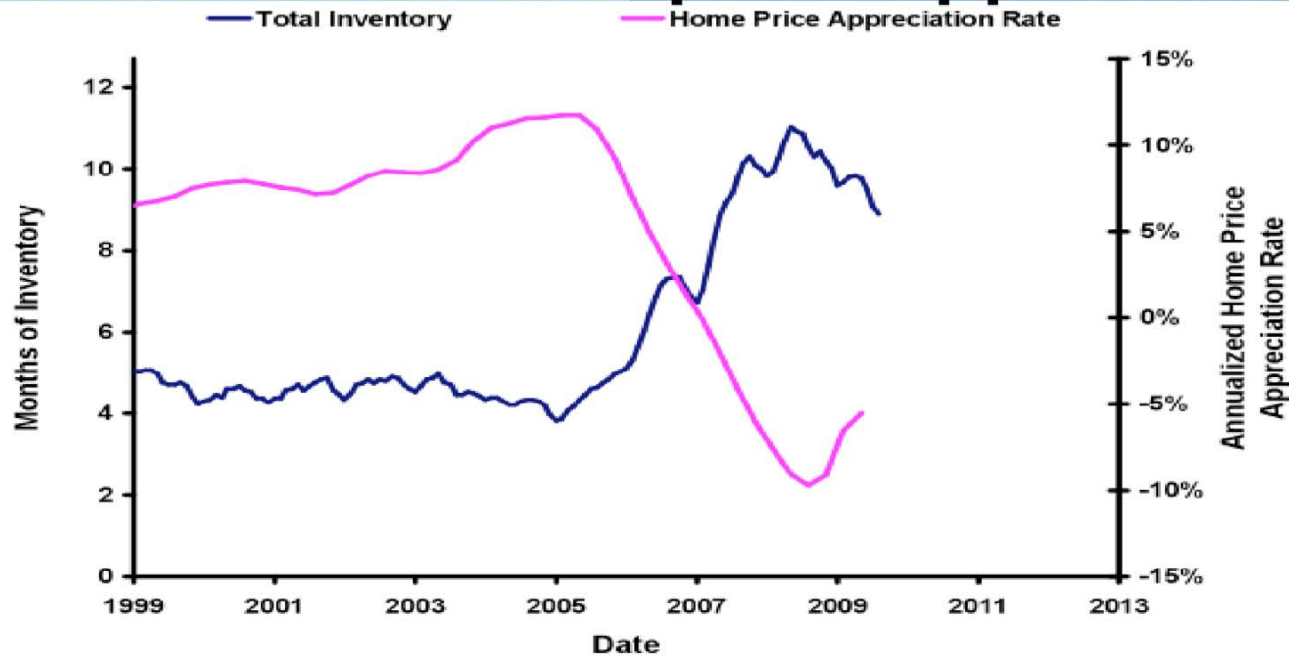


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The inventory of homes on market is related to house price appreciation



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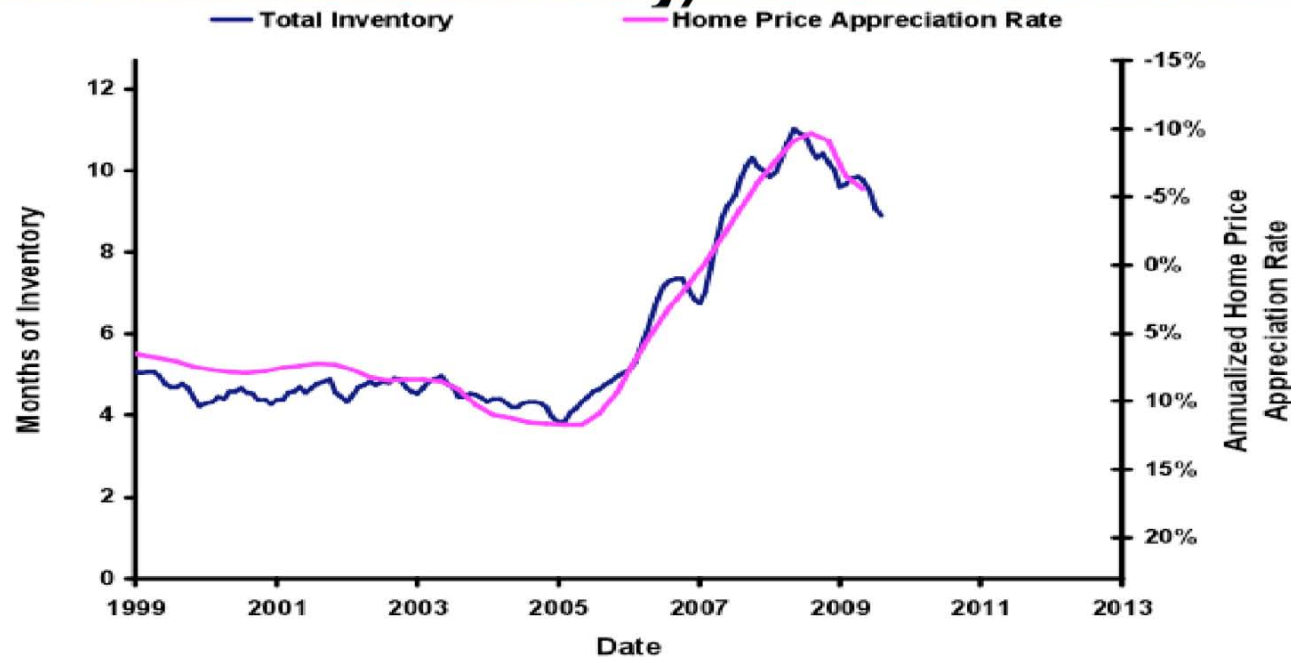


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Inverting house prices (up is bad) shows the inventory/HPA relationship



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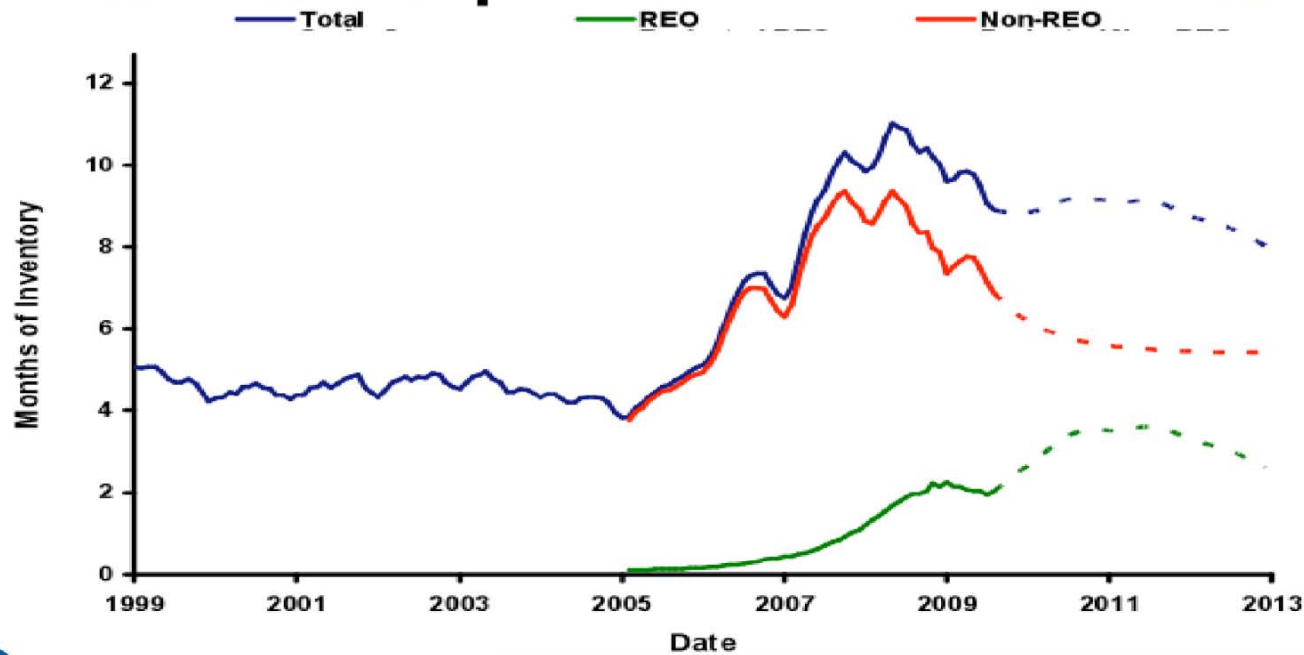


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Splitting inventory into REO & non-REO shows the impact of increased REOs



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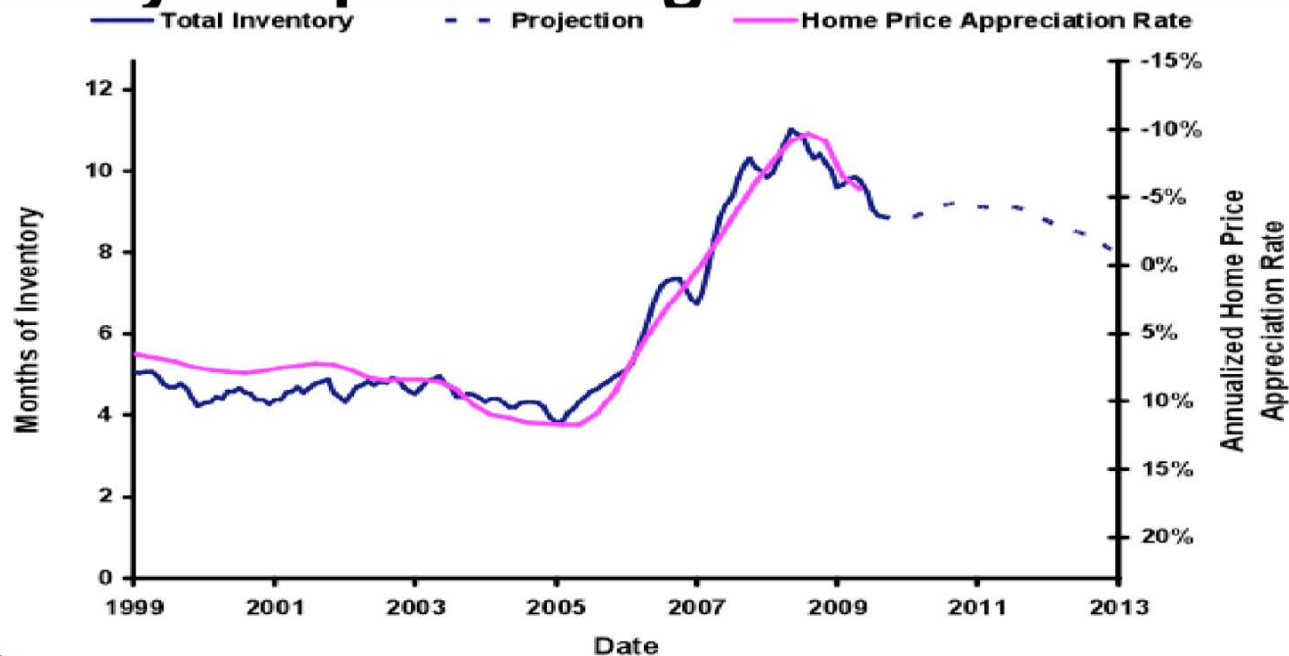


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REO-driven inventory contributions may keep HPI negative for a while



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**distressed
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ARTIFICIAL INTELLIGENCE
Finding relative value in
house prices

**EUROCATALYST 2009
LIVE FROM AUSTIN**

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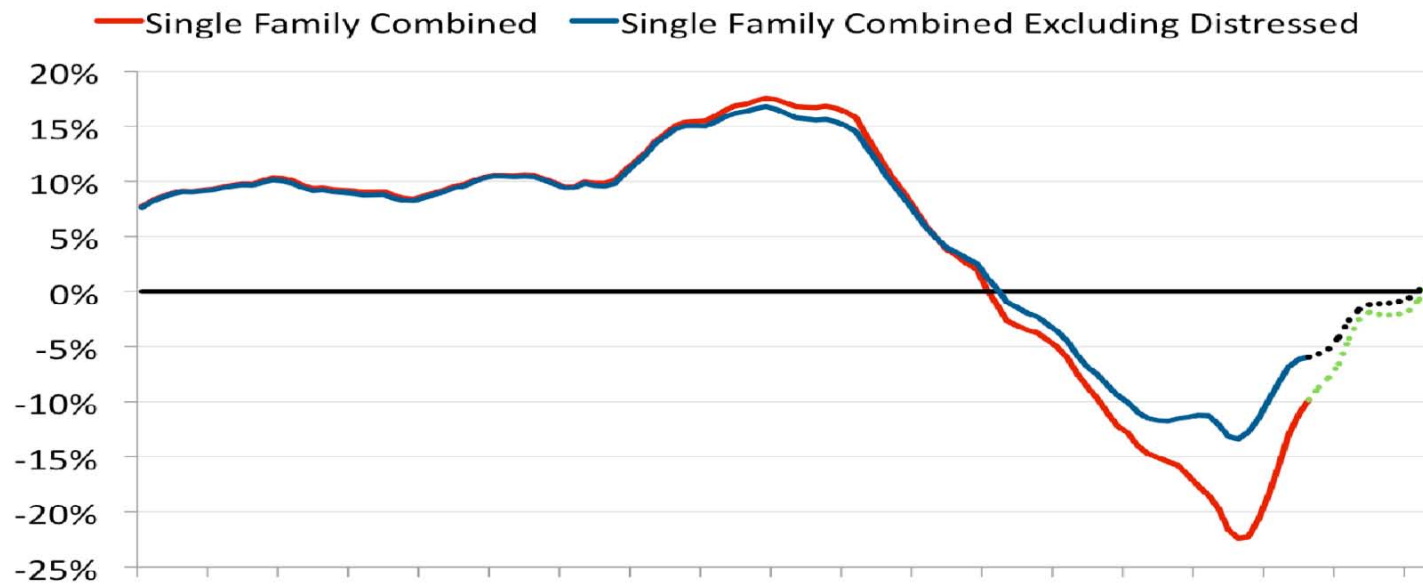


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Year-over-Year Home Price Appreciation SF Combined vs. SF Excluding Distressed



Source: First American Core Logic, based on September 2009 Forecast

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ABOUT THE EUROCATALYST ANNUAL EVENT

EuroCatalyst BV established the annual EuroCatalyst event as a “peer-to-peer” think tank in 2002 to widen the industry’s perspective, challenge the status quo, and improve the products, processes, and practices of an industry that we had hoped would lead the new system of globalization, rather than become a victim of it. We identified housing finance as the core of the global economy and focused on the accelerated globalization of mortgage markets as the main factor that would shake the world’s economic fault line if national markets and market sectors did not communicate with one another.

In 2001 we approached the World Bank, the European Commission, the World Economic Forum, the International Monetary Fund, the US Mortgage Banker’s Association and the European Mortgage Federation to produce the event but found no interest as mortgages were viewed as “just one of many financial services products” in Europe, and the event was considered too broad in scope for US-based organizations. We were told that if our conviction was compelling enough, we should do it ourselves with their participation in support. The style and scope of the event would be modeled after the TED Conferences, Esther Dyson’s PC Forum and similar “big picture” events focusing on education and interaction in an intellectually challenging and entertaining environment.

The event was launched in 2002 with the participation of all European trade organizations and the European Commission. In subsequent years we chose to focus on the commercial realities of the markets, leaving their political implications to the political process. As such, starting in 2003, EuroCatalyst adopted a policy of independence and neutrality, and has never asked for nor received endorsement from any official organization. Instead, we invite regulators and policy-makers to attend the event anonymously, on complimentary passes, to communicate with and understand the mindset of industry players.

Identifying globalization as the fundamental context in which to establish the event allowed discussions to center around the vast divide between the local activities of housing (origination, distribution, risk management, servicing, and consumer protection) vs. the increasingly global activities of funding (leverage, relative value, servicing, risk management, and recovery) and the ways in which this dramatic “disconnect” impacted each sector of the mortgage lifecycle. This became the ongoing theme of the event, and broke new ground in bringing together disparate sectors of the industry in one place, at one time, for the first time. Because the industry continued to evolve differently in various nations, EuroCatalyst moved the event each year, as an editorial and educational commentary, to the country in which the most significant changes were occurring.

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In 2007 EuroCatalyst introduced a media ban on the content of current and future event sessions to encourage the open and honest dialogue among peers sharing ideas and seeking solutions to the fundamental restructuring of the markets. Participation has always been limited to 350 on an invitation-only basis to continually increase the caliber of dialogue and discussion among key regulators, investors and crucial market participants.

EuroCatalyst 2002: Madrid 23-24 September

Mortgage lending in Europe: Will national market structures survive globalization?

EuroCatalyst 2003: Lisbon 22-24 October

Competition and convergence in European housing finance and fixed-income investment, the future of funding

EuroCatalyst 2004: Berlin 11-13 October

Growth, integration, and differentiation in European mortgage markets and fixed-income products

EuroCatalyst 2005: Rome 26-28 September

Risk, relationships, and reward in European mortgage markets

EuroCatalyst 2007 : Madrid 4-5 October

Burning Down the House | Quemando la casa

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EUROPESERVICING

Given the increasing financial leverage and risk that was occurring in mortgage markets, in 2005 we decided to directly address the weakest link, the mortgage administration and servicing sector. That year, we launched EuropeServicing to reposition the role of servicing from the originator's back office to the investor and consumer's front office. We highlighted the crucial role of servicing as the "bank within the bank" and the bridge between the primary and secondary markets, and brought investors and regulators directly into the discussion for the first time. The event became an industry-wide movement to generate ideas and strategies for improving the CMBS and RMBS servicing sectors and to highlight the most significant trends and players in Europe and the rest of the world. The event continually challenged what were considered to be "best practices" and brought awareness to the need to consider servicing issues prior to lending funds. At our last event in 2008, the audience overwhelmingly encouraged us to move the dialogue to the United States in 2009.

EuropeServicing 2005: 3 June | Amsterdam

Maximizing growth, minimizing operational risk and recovering asset value in European mortgage markets

EuropeServicing 2006: 31 May-1 June | British Academy of Film and Television Arts (BAFTA) London

Bridging primary and secondary markets, enabling cross-border lending and protecting investment value in European mortgage and real estate markets

EuropeServicing 2008: 28-29 April | British Film Institute (BFI), London

Vertigo: Mortgage servicing, processing, and administration in a world off-balance

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