Prospectus

Home Equity Loans, 2007-2008

- **New Forecasts: Hard Times In '07; Better In '08**
- **Bad Loans Up; Heloc Utilization Down**
- **BofA's Aim: The First $100 Billion Portfolio**
- **Full 2006 Results For Hundreds Of Lenders**
- **Special Section: Future Prospects**
  - **Home Equity Loan Penetration Rate Shoots Up**
  - **Update: Piggybacks Versus Free-Standing Loans**
  - **Counts Of Home Owners By Equity Amounts**

Optional Volume 2

Top Lenders, Penetration, & Prospects By County

Important Information about a new SMR Research Study

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SUMMARY OF THE STUDY

For home equity lenders, 2007 is starting to look bleak.

We are now forecasting a decline in both industry receivables and originations. At the same time, bad loans are up, and the subprime sector is in crisis. The Heloc draw-down rate fell sharply in 2006.

There are a number of reasons for this mess, detailed in the Introduction to this research study. But there also are good reasons to believe there will be a recovery in 2008.

Indeed, there are strong reasons to be bullish about the ultimate future of the home equity lending business. They'll shine through once the current turmoil is behind us.

In the special section on Future Prospects, we re-examine the home equity loan penetration rate for the first time since the year 2000 Census. Growth has been huge.

Home equity loans are now in place in almost twice as many households. Yet these existing customers remain part of the originations market, as many seek to replace existing loans with new ones. **And, despite high penetration, a large majority of home owners still have more than enough equity against which to borrow up to 90% CLTV.**

This study is our first annual home equity report published in May, allowing us to capture full-year statistical results for hundreds of players through the end of 2006.

We rank them all by receivables, with closed-end loan and Heloc breakouts. We show their 90-day-plus delinquency rates, net chargeoff rates, and Heloc utilization rates, too.

The main study shows national and lender results, with lengthy analysis and forward forecasts. Change at the top is already occurring, and more will come. **Bank of America now seeks the industry's first $100 billion home equity loan portfolio. Outfits such as E*Trade Bank are rising fast, while some others sink.**

An optional Volume 2 supplement for the first time looks at the largest county-level home equity markets and ranks leading players in each, computes average loan sizes and home equity penetration rates, and counts all home owners with debt by tiers of remaining equity in their homes.

This Prospectus describes the contents of the study in detail. An Order Form is enclosed. Thanks.

HIGHLIGHTS

The Turn Of Fortunes In 4Q 2006; Trouble In 2007

For all of 2006, home equity lenders chalked up another year of double-digit gains in receivables. **But inside that bullish story was a gloomier one.**

The receivables peak was in the first half. From the third quarter to the fourth, receivables actually declined – for the first time in a long time. And originations were turning down as well. In 2007, we believe, the same trend has continued.

It's no coincidence, we think, that this turn occurred just as U.S. home prices began to tumble. There were multiple impacts. Among them, rising combined loan-to-value (CLTV) ratios hurt, since originations peak with home owners whose CLTVs are 80% to 85% and then decline as the CLTV ratio rises further.

The subprime mortgage crisis hasn't helped, either. Some companies, now gone, were fairly sizeable home equity loan producers. And some were being used by prime-quality lenders to refinance their delinquent customers.

Receivables and originations trends are documented, with 2007 and 2008 SMR forecasts, in Section I of the study. Rising bad loans are shown in the Credit Quality section. We show Heloc utilization rates, recently declining, for the industry and by company.

But Problems May Be Temporary

You hate to wish for bad news, but right now a weaker U.S. economy (or even a recession) might be just what the industry needs.

That could spur the Federal Reserve to cut short-term interest rates, putting an end to recently falling home sales and declining prices. Helocs would also become more price-competitive against first-mortgage refinances.

We think it will happen, but not real soon. See Section I. We also think it won't take much change to stimulate new home equity borrowing.

One reason is the proven popularity of home equity loans, now temporarily masked. For the first time since year 2000, we have measured home equity loan penetration rates nationally and by county. **The percent of home owners with debt who also have home equity loans has nearly doubled.**

See the Future Prospects section for the details. The huge number of existing borrowers, by the way, does not mean fewer prospects are available. The market for replacement home equity products – home equity loan refinancing – is booming.

HIGHLIGHTS (continued)

Full-Year Stats And Our Changed Publication Date

For many years, SMR produced an annual home equity “outlook” study each November. **We’ve now changed that date to May.**

This enables us to gather and publish full-year 2006 results for all industry players. A number of clients also had asked us to publish prior to November so they could use the study in their Fall strategic planning meetings.

We hope you like the change. It’s more sensible, we think, to report data at year-end periods. Among other things, we no longer need to “annualize” partial-year company or industry net chargeoff statistics.

Change At The Top

As we completed this study, Bank of America’s deal to acquire LaSalle Bancorp from ABN Amro was tied up in court. But if BofA wins, it will have the first U.S. home equity loan portfolio of nearly $100 billion.

BofA was increasing its leading position in the industry anyway through powerful internal growth. See the Giants Section of the study. Meanwhile, home equity receivables were shrinking for some other players: Countrywide, National City Corp., and several other top players.

E*Trade Bank climbed in the ranks by boosting receivables by more than 100% over 2005. USAA Federal Savings Bank did nearly as well.

Our data on top players (and many smaller ones) was unusual this year; a wild mix of radical home equity lending increases, some sharp declines, and others somewhere in between.

New Data On Local Markets

Each year, our annual home equity industry study offers an optional Volume 2 Supplement on local markets. But this is a transition period, since we just published such a study last November.

So, we turned this year to our database of county courthouse lien records to compile all-new information on each of more than 300 of the largest county markets nationwide.

We show the Top 5 lenders and their shares of originations. We also show total home equity loan production, 2006 average loan sizes, piggyback and free-standing splits, the home equity penetration rate, and percentages of debtors with various tiers of remaining equity before hitting a 90% CLTV cap. See Page 8 for more details.

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Volume 2:
Key Data On County Markets

Our optional Volume 2 supplement this year provides local markets data similar to what you find in the main study on national results.

Who are the leading players in the major counties of the USA? What are their shares of originations? How many loans were produced in 2006, and with what splits between piggyback and free-standing loans? What percent of home owners now have home equity loans? How many prospects are left?

SMR used its massive database of county recorder lien records to create this supplement on county-level markets. We cover 366 of them, including nearly all the most populous places, from San Diego to Boston, and Seattle to Miami.

The supplement comes in print (more than 400 pages) but also in Excel spreadsheet format for easy re-sorting. Clients who purchase this supplement along with the main study get a big price discount.

Data items for each county include:

1. **Metro area location of the county.**

2. **2006 home equity loan originations: numbers of loans and dollars.**

3. **Breakouts for piggyback home purchase, piggyback refinance, and free-standing home equity loan production.**

4. **Penetration Rate:** Percent of home owners with debt who also have home equity products.

5. **Average 2006 loan sizes:** Piggybacks, free-standing loans, and overall.

6. **Market Opportunity:** Counts of homes with available equity (up to 90% CLTV) by equity tiers: 1) No remaining equity available, 2) $1-$9,999, 3) $10,000-19,999, and additional tiers up to $200,000 plus.

7. **Percent of home owners with a subprime borrowing history.**

8. **Top five players in the county in 2006 originations:**
    1) **Company name**
    2) **% share of the number of loans produced in 2006**
    3) **% share of the dollars of loans produced in 2006**

We are relatively certain that none of these data whatsoever can be obtained from any other source. A methodologies section explains how we did it. A national totals section shows composite results for all counties studied. A rank-order section summarizes which counties stand where on key topics.