

Highlights from Risk Summit 2006

August 3, 2006

The mood at this year's Risk Summit, hosted by Loan Performance in Carlsbad, California, was slightly pessimistic. Loan originators are experiencing declining volume and increasing amount of fraud. Investors appeared cautious about the future performance of deals from the 2005 and 2006 vintages, as underwriting standards have eased and interest rates have risen. Wall Street anticipates a period of consolidation in the industry along with a workforce reduction. Meanwhile, everyone anticipates a declining rate of home price appreciation in 2006 and 2007, although only a handful of attendees actually anticipate an actual nationwide decline in prices. Below we highlight some of the particularly interesting sessions at Risk Summit 2006.

The following summaries reflect remarks of the panelists who participated in selected sessions at the Risk Summit 2006 conference sponsored by Loan Performance. For the most part, the summaries have been drawn from notes taken during the sessions by Nomura employees. The summaries have not been reviewed or approved by the panelists. While we have tried to capture panelists' remarks accurately, we apologize in advance for any inaccuracies and omissions. In addition, we wish to acknowledge the excellent work of Loan Performance in hosting the conference.

Risk Modeling

In the Risk Modeling session, the panelists presented some recent results of their modeling efforts. One presentation focused on the strong correlation between home price appreciation (HPA) and loss mitigation comparing losses across all 50 states to prove that strong HPA has not only lowered levels of default, but also reduced loss severity. Another panelist emphasized the link between higher interest rates with defaults and prepayments on adjustable rate mortgages. Historically, if a borrower experiences a 50% payment shock at the reset date on a 3/27 subprime mortgage, he is roughly 80% more likely to default than in the absence of a payment shock. A third panelist compared S&P's newly revamped LEVELS model with the RiskModel from Loan Performance. The panelist sharply criticized several aspects of S&P's LEVELS model. First and foremost, S&P's model is insensitive to loan balance, a variable that is highly predictive of future default and losses, according to the presenter. Next, the panelist criticized S&P's practice of grouping borrowers into large "buckets" based on FICO scores. According to the panelist, LEVELS applies the same treatment to a borrower with a 660 FICO score and to one with a 600 FICO score, yet the risk of the two is clearly different. Finally, the presenter compared the two models' sensitivity to reduced-doc or no-doc loans. He found that S&P's model was not nearly as sensitive to doc type, which the panelist believes understates the true risk.

This report and others are available online at Nomura's new research website. To obtain a user id and password, please contact Diana Berezina at dberezina@us.nomura.com.
The web address is <http://www.nomura.com/research/s16>

**Please read the important disclosures and analyst certifications
appearing on the second to last page.**

Contacts:

Jeremy Garfield, CFA
(212) 667-2158
jgarfield@us.nomura.com

Nomura Securities International, Inc.
Two World Financial Center
New York, NY 10281-1198

www.nomura.com/research/s16

Bloomberg: NFIR <GO>

Sellside & Buyside Views

In the adjacent panel discussion sessions on Tuesday morning, one titled "Straight Talk From The Sellside," the other, "Straight Talk From The Buyside," panelists discussed several interesting points. Starting in the sellside session, one panelist noted a large increase in first payment defaults and a general deterioration in credit performance. Given this change, the presenter stressed the importance of due diligence. Panelists expect further industry consolidation as firms pursue vertical integration from loan origination all the way through securitization. Also, one presenter believes that the agency market is no longer the primary driver of non-agency market spreads, as it had been in the past, but that the CDO market is now the main force driving spreads tighter. Loan originators have started to tighten lending standards by raising FICO floors. One panelist expects cumulative losses on the current vintage of subprime to be in between 3.5% and 5%.

In the buyside panel, the panelists candidly discussed their views and recent developments. One panelist believes that the growth of residual funds, which were described as passive investments in residuals, could be the "straw that breaks the camels back." According to a panelist, an active role is required to extract value from the residuals and this is not happening with residual funds. Furthermore, mortgage servicers frequently fail to collect prepayment penalties. One speaker stressed the need for buyside institutions to increase their analytic capabilities. While the presenter is reasonably comfortable with the risk in most newly-issued BBB tranches, he expects losses in new deals to be more front-loaded than in older deals. CDOs currently play an important role in the market. CDOs have caused 100 to 200 basis points of spread tightening on triple-B home equity tranches. In addition, one presenter complained about receiving only small allocation of new home equity ABS deals when CDOs are ramping up.

Subprime Market

The panel on the subprime market focused on recent developments. One panelist highlighted the growing strength of big players in the market, with the top five originators now comprising 40% of production and brokers making up 61% of the market. Increased competition in the subprime market has put pressure on underwriting standards. One presenter has felt the impact of slowing origination volumes from higher interest rates and more competition from prime and alt-A originators. The panelist mentioned that borrower fraud is rampant and that loan purchasers are rejecting a greater proportion of delivered loans because of breaches of representations and warranties. The abundance of rejected loans has created oversupply in the scratch and dent market.

Second Liens

The participants on the panel on second liens each had a slightly different view of the market. One of the presenters focused on simultaneous seconds. Originations of simultaneous seconds are concentrated in the less-affordable markets of California, Florida, and New York. Therefore home price appreciation in these markets will be critical to the future performance of the loans. Layered risk in the second-lien market, such as putting a second lien behind an interest-only ARM first lien, could potentially hinder future performance. Another panelist (speaking with regard to his company's internal second lien portfolio) has not seen the same erosion of credit standards as have other market participants. The market displays trends toward synchronizing credit guidelines for simultaneous second-lien loans and cheaper mortgage insurance premiums to compete with simultaneous seconds. Finally, one of the panelists believes that the second lien market offers opportunity for savvy investors who can find undervalued tranches, as structures vary significantly from one deal to another. There is a market need, however, for improved data quality, specifically tying first-lien and second-lien data together. With respect to the performance of older deals, weak triggers have and will allow OC to be released causing downgrade pressure on many deals.

— E N D —

Recent Nomura Fixed Income Research

Fixed Income General Topics

- Bond Rating Confusion (updated 29 Jun 2006)
- Update on U.S. Fixed Income Market Conditions (6 Mar 2006)
- Rating Shopping – Now the Consequences (16 Feb 2006)
- Report from Las Vegas – Coverage of Selected Sessions of ASF 2006 (3 Feb 2006)
- U.S. Fixed Income 2006 Outlook/2005 Review (15 Dec 2005)
- Condition of the U.S. Housing Market (3 Nov 2005)

ABS/CDO

- CDO/CDS Update (24 Jul 2006)
- CDS Recovery Basis: Issues with Index Auctions & Credit Event Valuations (12 Apr 2006)
- VantageScoresm vs. FICO (16 Mar 2006)
- Synthetic ABS 101: PAUG and ABX (7 Mar 2006)
- Student Loan ABS Update (21 Feb 2006)
- Report from Arizona 2006 – Coverage of Selected Sessions of ABS West 2006 (15 Feb 2006)
- The Evolution of Commercial Real Estate CDOs (4 Jan 2006)
- Model Risk Update – Margins of Error and Scenario Analysis (29 Nov 2005)
- Correlation Redux (17 Oct 2005)
- Report from Boca Raton 2005: Coverage of Selected Sessions of ABS East 2005 (20 Sep 2005)
- Anatomy of a Credit CPPI (8 Sep 2005)

MBS/CMBS

- Boosting Geographic Diversification of Bank Commercial Mortgage Loan Portfolios (1 Aug 2006)
- GNMA Project Loan Prepayment Report (13 Jul 2006)
- MBS Research – TBA Projections (27 Jun 2006)
- May 2006 CMBS Monthly (8 Jun 2006)
- U.S. Mortgage & Real Estate Update (22 May 2006)
- GNPL REMIC Factor Comparison (22 May 2006)
- MBS Basics (31 Mar 2006)
- The CMBX: the Future is Here (23 Mar 2006)
- CMBS Credit Migrations 2005 Update (30 Nov 2005)
- Overview of the ARMs Market (23 Nov 2005)

Strategy

- CMBS: Value in 7-Yr AAA Bonds (27 Jun 2006)
- RMBS: Population Changes & Housing Markets (26 Jun 2006)
- RMBS: Loss Severity tool "Short Sales" Returning? (22 Jun 2006)
- RMBS: 5 Methods for Hedging Housing Credit Risk (21 Jun 2006)
- Structured Notes: Value in Range Accruals (20 Jun 2006)
- MBS: Market Check-up – June Update (15 Jun 2006)
- RMBS: Cold Front Hitting Miami's Housing Market? (15 Jun 2006)
- CMBS: Time for the AAA "Negative Basis" Trade (13 Jun 2006)
- ABS: S&P Adjusts HEL Credit Enhancement Levels (8 Jun 2006)
- ABX Index: The Constituent Breakdown (8 Jun 2006)
- CMBS: Opportunities in Total Return Swaps? (1 Jun 2006)
- OFHEO releases Home Price Indices for 1st Qtr. 2006 (1 Jun 2006)
- Fed Funds Policy: More Tightening on Horizon? (1 Jun 2006)
- RMBS: California Housing Affordability & Poverty Rates (24 May 2006)
- CMBS: AAA-Rated AM (20% c/e) Classes Attractive (23 May 2006)
- MBS GNMA-IRS Ruling-Lower Supply and Tighter Spreads (22 May 2006)
- Housing Prices: Moderating Gains and Higher Inventories (18 May 2006)
- RMBS: Foreclosures Climbing in "Rust Belt" States (18 May 2006)
- Agency Debt: FHLB-Chicago 10-yr Sub Debt...Coming Soon (17 May 2006)
- HEL: 2005 Vintage ARM Performance & Credit Curve Shape (11 May 2006)
- RMBS: New Wrinkle in Option ARM Lending (10 May 2006)
- MBS: Market Check-up: May Update (5 May 2006)
- ABS: Credit Impact of General Motors & Ford on Auto Deals (28 Apr 2006)
- CMBS: Levered Spreads & Attractiveness of BB Bonds (27 Apr 2006)

I Jeremy Garfield, a research analyst employed by Nomura Securities International, Inc., hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed herein. In addition, I hereby certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views that I have expressed in this research report, nor is it tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or by any other Nomura Group company or affiliate thereof.

© Copyright 2006 Nomura Securities International, Inc.

This publication contains material that has been prepared by the Nomura entity identified on the banner at the top of page 1 herein and, if applicable, with the contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or elsewhere identified in the publication. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the "Nomura Group") include: Nomura Securities Co., Ltd. ("NSC") and Nomura Research Institute, Ltd., Tokyo, Japan; Nomura International plc and Nomura Research Institute Europe, Limited, United Kingdom; Nomura Securities International, Inc. ("NSI") and Nomura Research Institute America, Inc., New York, NY; Nomura International (Hong Kong) Ltd., Hong Kong; Nomura Singapore Ltd., Singapore; Nomura Australia Ltd., Australia; P.T. Nomura Indonesia, Indonesia; Nomura Malaysia Sdn. Bhd., Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch, Taiwan; or Nomura International (Hong Kong) Ltd., or Nomura International (Hong Kong) Ltd., Seoul Branch, Korea.

This material is: (i) for your private information, and we are not soliciting any action based upon it; (ii) not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal; and (iii) based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such.

Opinions expressed are current opinions as of the original publication date appearing on this material only and the information, including the opinions contained herein are subject to change without notice. In addition, other members of the Nomura Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from, companies mentioned herein. Further, the Nomura Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, from time to time, have long or short positions in, and buy or sell (or make a market in), the securities, or derivatives (including options) thereof, of companies mentioned herein, or related securities or derivatives. Fixed income research analysts, including those responsible for the preparation of this report, receive compensation based on various factors, including quality and accuracy of research, firm's overall performance and revenue (including the firm's fixed income department), client feedback and the analyst's seniority, reputation and experience.

NSC and other non-US members of the Nomura Group, their officers, directors and employees may, to the extent it relates to non-US issuers and is permitted by applicable law, have acted upon or used this material, prior to or immediately following its publication.

Foreign currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from the investment. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk.

The securities described herein may not have been registered under the U.S. Securities Act of 1933, and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been registered under such Act, or except in compliance with an exemption from the registration requirements of such Act. Unless governing law permits otherwise, you must contact a Nomura entity in your home jurisdiction if you want to use our services in effecting a transaction in the securities mentioned in this material.

This publication has been approved for distribution in the United Kingdom and European Union by Nomura International plc ("NIPlc"), which is authorised and regulated by the UK Financial Services Authority ("FSA") and is a member of the London Stock Exchange. It is intended only for investors who are "market counterparties" or "intermediate customers" as defined by FSA, and may not, therefore, be redistributed to other classes of investors. This publication may be distributed in Germany via Nomura Bank (Deutschland) GmbH, which is authorised and regulated in Germany by the Federal Financial Supervisory Authority ("BaFin") This publication has also been approved for distribution in Hong Kong by Nomura International (Hong Kong) Ltd. ("NIHK"), which is regulated by the Hong Kong Securities and Futures Commission ("SFC") under Hong Kong laws. Neither NIPlc nor NIHK hold an Australian financial services licence as both are exempt from the requirement to hold this license in respect of the financial services either provides. NSI accepts responsibility for the contents of this material when distributed in the United States. This publication has also been approved for distribution in Singapore by Nomura Singapore Limited.

No part of this material may be (i) copied, photocopied, or duplicated in any form, by any means, or (ii) redistributed without the prior written consent of the Nomura Group member identified in the banner on page 1 of this report. Further information on any of the securities mentioned herein may be obtained upon request. If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

NIPlc and other Nomura Group entities manage conflicts identified through the following: their Chinese Wall, confidentiality and independence policies, maintenance of a Stop List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from the allocation and pricing of securities and impartial investment research and disclosure to clients via client documentation.

Disclosure information is available at www.nomura.com/research.

NEW YORK

Nomura Securities International
2 World Financial Center, Building B
New York, NY 10281
(212) 667-9300

TOKYO

Nomura Securities Company
2-2-2, Otemachi, Chiyoda-Ku
Tokyo, Japan 100-8130
81 3 3211 1811

LONDON

Nomura International PLC
Nomura House
1 St Martin's-le-grand
London EC1A 4NP
44 207 521 2000

David P. Jacob 212.667.2255 International Head of Research

Nomura U.S. Fixed Income Research

David Resler	212.667.2415	Head of U.S. Economic Research
Mark Adelson	212.667.2337	Securitization/ABS Research
Arthur Q. Frank	212.667.1477	MBS Research
Weimin Jin	212.667.9679	Quantitative Research
James Manzi	212.667.2231	CMBS Research/Strategy
Xiang Long	212.667.9652	Quantitative Analyst
Diana Berezina	212.667.9054	Analyst
Jeremy Garfield	212.667.2158	Analyst
Edward Santevecchi	212.667.1314	Analyst
Pui See Wong	212.667.2132	Analyst
