Internet Appendix

A.1. Derivation of Model Propositions

This section presents the derivation of the three propositions discussed in Section II. First, we consider a W2 borrower's utility-maximizing choice of income exaggeration for a low-doc loan, given a loan cost r. A W2 borrower solves the following utility maximization:

$$\max_x U_W^N(x) = u\left(L^N; \mu(x)\right) - rL^N(x) + \rho\left[pu\left(L^F; \mu\right) + (1-p)\, u\left(L^N(x); \mu\right) - rL^N(x)\right]$$

This objective function is globally concave. The first order condition is:

$$\frac{dU_W^N(x)}{dx} = (1 + \rho(1-p))\left(\frac{\mu\sqrt{\beta y}}{2\sqrt{x}} - r\beta y\right) = 0.$$

Rearranging gives,

$$x_W = \frac{\mu^2}{4r^2\beta y}.$$

We insert this choice of income exaggeration into the objective function and analyze the borrower's choice between a low-doc loan and a full-doc loan.

$$B_W^N(\mu) \equiv U_W^N(x_W) - U_W^F = (1 + \rho(1-p))\left(\frac{1}{4r}\mu^2 - \sqrt{\alpha y}\mu\right).$$

This is a convex quadratic function that takes a value of zero when $\mu = \{0, \mu^*\}$, where $\mu^* \equiv 4r\sqrt{\alpha y}$. The benefit of a low-doc loan $B_W^N(\mu)$ is positive if and only if $\mu > \mu^*$ and otherwise non-positive.

A W2 borrower without a concern about future credit access is characterized by $\rho = 0$. The choice of income exaggeration is unchanged. The benefit of a low-doc loan becomes: $B_W^N(\mu) = 1/4r\mu^2 - \sqrt{\alpha y}\mu$, which is smaller in absolute value than for a W2 borrower with future credit concerns. The threshold value μ^* is unchanged.

A self-employed borrower's utility-maximizing choice of income exaggeration for a low-doc loan, given a loan cost r, is defined by:

$$\max_x U_S^N(x) = u\left(L^N(x);\mu\right) - rL^N(x)$$
$$+\rho\left[p\left(u\left(L_D^N;\mu\right) - rL_D^N - \gamma x L_D^N\right) + (1-p)\left(u\left(L^N(x);\mu\right) - rL^N(x)\right)\right].$$

The first order condition is:

$$\frac{dU_S^N(x)}{dx} = (1+\rho(1-p))\left(\frac{\mu\sqrt{\beta y}}{2\sqrt{x}} - r\beta y\right) - \rho p\gamma\beta y = 0.$$

Rearranging gives,

$$x_S = \left(1 + \frac{\rho p\gamma}{r(1+\rho(1-p))}\right)^{-2} \times \frac{\mu^2}{4r^2\beta y} \equiv Ax_W,$$

where $A \equiv [1+\rho p\gamma/r(1+\rho(1-p))]^{-2} \in (0,1)$. We plug this choice of income exaggeration in the objective function and analyze the borrower's choice between a low-doc loan and a full-doc loan.

$$\begin{aligned} B_S^N(\mu) &\equiv U_S^N(x_S) - U_S^F \\ &= \mu^2 \frac{(1+\rho(1-p))}{4[r(1+\rho(1-p))+\rho p\gamma]} + \mu\left[\rho p\sqrt{\beta y} - (1+\rho)\sqrt{\alpha y}\right] + (1+\rho)c^H - \rho pr\beta y \\ &\equiv \theta_1\mu^2 + \theta_2\mu + \theta_3, \end{aligned}$$

where $\theta_1 \equiv \frac{\sqrt{A}}{4r} > 0, \theta_2 \equiv \rho p\sqrt{\beta y} - (1+\rho)\sqrt{\alpha y} < 0,$ and $\theta_3 \equiv (1+\rho)c^H - \rho pr\beta y$. $B_S^N(\mu)$ is a convex quadratic function that takes a value of θ_3 when $\mu = 0$. The sign of θ_3 depends on c^H. Further rearranging gives

$$B_S^N(\mu) = \theta_1\left(\mu + \frac{\theta_2}{2\theta_1}\right)^2 + \theta_3 - \frac{\theta_2^2}{4\theta_1}.$$

The global minimum of $B_S^N(\mu)$ is $\theta_3 - \frac{\theta_2^2}{4\theta_1}$. Thus, there are three cases for the solution to $B_S^N(\mu) = 0$.

1. If $\theta_3 > \frac{\theta_2^2}{4\theta_1}$, then $\forall\mu : B_S^N(\mu) > 0$.

2. If $\theta_3 \in \left[0, \frac{\theta_2^2}{4\theta_1}\right]$, then $B_S^N(\mu) = 0$ has two roots: $\mu_S^* = -\frac{\theta_2}{2\theta_1} + \sqrt{\frac{\theta_2^2}{4\theta_1^2} + \frac{\theta_3}{\theta_1}}$ and $\mu_S^{**} = -\frac{\theta_2}{2\theta_1} - \sqrt{\frac{\theta_2^2}{4\theta_1^2} + \frac{\theta_3}{\theta_1}}$. Thus, $B_S^N(\mu) \leq 0$ for $\mu \in [\mu_S^{**}, \mu_S^*]$, and $B_S^N(\mu) > 0$ for $\mu \in (0, \mu_S^{**})$ and $\mu > \mu_S^*$.

3. If $\theta_3 < 0$, then $B_S^N(\mu) = 0$ has one root. Thus, $B_S^N(\mu) \leq 0$ for$\mu \in (0, \mu_S^*]$, and $B_S^N(\mu) > 0$ for $\mu > \mu_S^*$.

A.2. Estimation Results for the Semi-log Model of Borrower Income (Section V.)

Table A1 reports the coefficient estimates for the income regressions where the dependent variable is the log of borrower income. Column [1] includes all full-doc W2 observations, while Column [2] includes all full-doc self-employed observations.[1] The signs and significance of the coefficients generally match across the two subsamples. The coefficients indicate that women and minorities have lower incomes while borrowers with higher credit reputation have higher incomes. An individual's income is positively related to the neighborhood (ZIP code) income level, and negatively related to the changes in MSA house prices in the two-year period prior to loan origination.

We use the coefficients in Table A1 to compute estimates of income for the full-doc (in-sample) and low-doc (out-of-sample) loan borrowers. To calculate an estimate of income exaggeration (INC_EXAG), we subtract the estimated income from the reported income. Since estimated and reported income are both in logs, INC_EXAG represents the percentage difference between the borrower's reported income and estimated income.[2]

[1] Full-doc borrower income is verified by the lender.
[2] INC_EXAG is winsorized at the at the 1% level, but the main results are unchanged without winsorization.

Table A1: Model for Income Estimation

	[1] W2 Log Income Full Doc		[2] Self-Employed Log Income Full Doc	
Dependent Variable: Natural Logarithm of Borrower Monthly Income	**Coeff.**	**Std. Err.**	**Coeff.**	**Std. Err.**
The FICO score of the primary borrower at origination (FICO)	0.0002***	(0.0000)	0.0004***	(0.0001)
An indicator set to one if the borrower was a female (FEMALE)	-0.1157***	(0.0015)	-0.0985***	(0.0075)
The age of the primary borrower (AGE)	-0.0027***	(0.0001)	-0.0022***	(0.0003)
An indicator set to one if the borrower was a minority (MINORITY)	-0.0077***	(0.0016)	-0.0132*	(0.0076)
Zip Code Income per Capita (ZIP_INC)	0.1021***	(0.0023)	0.0496***	(0.0093)
Loan amount at origination (LOG_LOAN)	0.6762***	(0.0019)	0.6782***	(0.0080)
An indicator set to one if the property was an investment property (INVESTMENT)	0.3685***	(0.0032)	0.5236***	(0.0107)
MSA house price growth over previous two years (HPI_2YR)	-0.2483***	(0.0094)	-0.1133***	(0.0406)
Origination Year Dummies	Yes		Yes	
MSA Fixed Effects	Yes		Yes	
Constant	0.0760	(0.0835)	0.1985	(0.2486)
N	253,114		19,509	
Adj. R^2	0.54		0.45	

Note: This table presents coefficient estimates from an OLS regression of log borrower income for the full-doc funded loans from the New Century database. The coefficients in columns 1 and 2 are used to estimate the log income of the W2 and self-employed loans, respectively. Heteroskedasticity-robust standard errors adjusted for clustering at the MSA level are reported in parentheses.. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

A.3. Example Wholesale Rate Sheets

First Franklin
A National City Company

FIRST MORTGAGE ARM
2 YR. FIXED / 2 YR. PRE-PAY (3/1/6% CAPS)

WHOLESALE RATE SHEET
July 10, 2006

SECOND MORTGAGE COMBO PROGRAMS
(FULL AMORT/BALLOON)

FIRST MORTGAGE

FULL DOC

Credit Score	LTV RANGES 100-95.01	95-90.01	90-85.01	85-80.01	80-75.01	75-70.01	70-65.01	≤65
≥700	7.75	7.25	7.25	7.00	6.50	6.40	6.25	6.15
680-699	8.00	7.50	7.40	7.15	6.65	6.65	6.50	6.40
660-679	8.10	7.75	7.50	7.25	6.75	6.75	6.75	6.65
640-659	8.35	7.90	7.75	7.50	7.00	7.00	6.90	6.75
630-639	9.00	8.25	8.00	7.75	7.25	7.25	7.10	7.00
620-629	9.00	8.25	8.00	7.75	7.25	7.25	7.15	7.00
610-619	9.25	8.50	8.15	7.90	7.35	7.35	7.25	7.15
600-609	9.25	8.50	8.15	7.90	7.35	7.35	7.25	7.15
590-599	10.25	8.50	8.25	8.00	7.60	7.50	7.40	7.25
580-589	10.50	8.65	8.65	8.00	7.65	7.65	7.50	7.40
570-579			8.75	8.00	7.65	7.65	7.50	7.40
560-569			9.00	8.15	7.90	7.75	7.65	7.50
550-559				8.75	8.50	8.25	8.00	7.90
540-549				8.90	8.50	8.25	8.00	7.90
MARGIN	6.40	6.40	5.90	5.90	5.40	5.40	5.40	5.40

RAPID PURCHASE / RAPID REFI

Credit Score	LTV RANGES 100-95.01	95-90.01	90-85.01	85-80.01	80-75.01	75-70.01	70-65.01	≤65
≥700	8.25	7.75	7.75	7.50	7.00	6.85	6.75	6.65
680-699	8.50	8.00	7.85	7.65	7.15	7.15	7.00	6.90
660-679	8.75	8.40	8.10	7.90	7.35	7.35	7.35	7.25
640-659	9.00	8.50	8.40	8.10	7.60	7.60	7.50	7.40
630-639	9.60	8.85	8.65	8.40	7.90	7.90	7.75	7.65
620-629	9.60	8.85	8.65	8.40	7.90	7.90	7.75	7.65
610-619	10.00	9.25	8.90	8.65	8.10	8.10	8.00	7.90
600-609	10.00	9.25	8.90	8.65	8.10	8.10	8.00	7.90
590-599			9.00	8.75	8.35	8.25	8.15	8.00
580-589			9.40	8.75	8.40	8.40	8.25	8.15
570-579			9.50	8.75	8.40	8.40	8.25	8.15
560-569			9.75	8.90	8.65	8.50	8.40	8.25
550-559				9.50	9.25	9.00	8.75	8.65
540-549				9.65	9.25	9.00	8.75	8.65
MARGIN	6.40	6.40	5.90	5.90	5.40	5.40	5.40	5.40

NIV

Credit Score	LTV RANGES 100-95.01	95-90.01	90-85.01	85-80.01	80-75.01	75-70.01	70-65.01	≤65
≥700	8.40	7.90	7.90	7.65	7.15	7.00	6.90	6.75
680-699	8.65	8.15	8.00	7.75	7.25	7.25	7.15	7.00
660-679	8.75	8.40	8.15	7.90	7.40	7.40	7.35	7.25
640-659	9.00	8.50	8.40	8.15	7.60	7.60	7.50	7.40
630-639			9.00	8.75	8.25	8.25	8.15	8.00
620-629			9.00	8.75	8.25	8.25	8.15	8.00
610-619			9.15	8.90	8.40	8.40	8.25	8.15
600-609			9.15	8.90	8.40	8.40	8.25	8.15
590-599					8.65	8.50	8.40	8.25
580-589					8.65	8.65	8.50	8.40
570-579						8.65	8.50	8.40
560-569						8.75	8.65	8.50
550-559								
540-549								
MARGIN	6.40	6.40	5.90	5.90	5.40	5.40	5.40	5.40

NIV Wage Earner add 0.25

YSP MATRIX

2:1 up to 1.50
1:1 from 1.55 to 2.00 YSP
Max YSP = 2.00%

BUYDOWNS

(MAX = 0.75 IN RATE)
2:1 BUYDOWN

EXTENDED LOCK

PERIOD	FEE	UP FRONT FEE
60 Day Lock	0.50	0.50
90 Day Lock	1.00	1.00
180 Day Lock	2.50	1.00

(Restrictions apply. Please contact your local Account Executive.)

Lock Period

30 Day Lock	0.00
45 Day Lock (add to rate)	0.15

PREPAYMENT PENALTY

Prepayment Penalty (No YSP Pricing on No Prepay Loans)

	6 Mo.	1/29 & 2/28	3/27	5/25
3 Yr Prepay	(0.35)	(0.35)	0.00	0.00
2 Yr Prepay	0.00	0.00	0.35	0.35
1 Yr Prepay	0.65	0.65	0.65	0.65
0 Yr Prepay	1.00	1.00	1.00	1.00

ADJUSTMENTS TO RATE

Program

6 Mo Libor (5511) (1/1/6% CAPS)(*adjust rate & margin)	(0.50)*
1 Yr Fixed (5515) (2/1/6% CAPS)	(0.25)
3 Yr Fixed (5514)	0.00
5 Yr Fixed (5519)	0.35
103% LTV	0.25
Best Score (Add does not apply to NIV)	0.25

Products

	Fico ≥660	Fico 600-659	Fico <600
40 yr Amort. (I/O N/A)	0.10	0.10	0.20
50 yr Amort. (I/O N/A)	0.20	0.25	0.35
Interest Only	0.25	0.50	0.75

Doc Type

NIV Wage Earner	0.25
LIV	0.25
Stated Plus/Blended Access	0.65

Loan Purpose

Refi & LTV > 95% or CLTV > 95% (excludes Rapid Refi)	0.50
Combo & CLTV > 90%	0.15

Occupancy

N/O/O or 2nd Home & LTV ≤ 80%	0.25
N/O/O or 2nd Home & LTV > 80%	0.50

Property Type

Condo*	0.25
*First Time Home Buyer Special; No add for Condo	
3-4 Units	0.25

Loan Amt

< $80K*	0.25
*First Time Home Buyer Special; No add < $80K	
> $1.2M - $1.35M	0.35
> $1.35M*	0.75
*Restrictions apply. Please contact your local Account Executive.	

Other

Bankruptcy/Foreclosure <12 mnth. Seasoning	0.25

SECOND MORTGAGE

FULL DOC

Credit Score	80% 1st Lien*	LTV RANGES 100% CLTV	95% CLTV	90% CLTV	85 % CLTV	≤ 80% CLTV	Blended Rate 80/20*
≥700	6.65	9.20	8.45	8.20	7.95	7.60	7.16
680-699	6.80	9.60	8.85	8.60	8.35	8.10	7.36
660-679	6.90	10.10	9.35	9.10	8.85	8.60	7.54
640-659	7.15	10.85	10.10	9.85	9.60	8.95	7.89
620-639	7.40	11.45	10.70	10.45	10.20	9.60	8.21
600-619	7.50	11.95	11.20	10.70	10.35	9.70	8.39

PREPAYMENT PENALTY: 2 YEARS

*Combo add included

NIV

Credit Score	80% 1st Lien*	LTV RANGES 100% CLTV	95% CLTV	90% CLTV	85% CLTV	≤ 80% CLTV	Blended Rate 80/20*
≥700	7.30	9.45	8.70	8.45	8.20	7.85	7.73
680-699	7.40	9.85	9.10	8.85	8.60	8.35	7.89
660-679	7.55	10.60	9.85	9.60	9.35	9.10	8.16
640-659	7.75	11.35	10.60	10.35	10.10	9.45	8.47

PREPAYMENT PENALTY: 2 YEARS

*Combo add included

2ND MTG NOTES

All loans must be funded at PAR or at a discount.
FULL DOC MINIMUM CREDIT SCORE =600
NIV DOC MINIMUM CREDIT SCORE = 640
BALLOON FINANCING AVAILABLE TO 100% cltv
(use code 5521 for balloon product)

Combo's only, no stand-alone 2nds.
Minimum loan amount: $10,000.
N/O/O or 2nd Homes not eligible for subordinate financing.
Rural Properties not eligible for subordinate financing.

~If first mortgage is 30 year amort., use 30/20 or 30/15 or 30/10
~If first mortgage is 30/15 balloon, use 30/10 only

2ND MTG RATE ADD-ON ONLY

BUYDOWNS

Buydowns = 3:1
Maximum Discount = 1.00% in rate.
Yield Spread Premium is not available.

PREPAYMENT PENALTY BUYDOWN

1 Yr Prepay	0.25
0 Yr Prepay	0.55

RATE ADD-ON

LIV	0.50
12 month bank statements 600-639	0.25

DTI SPECIAL (Not available for NIV)

FOR DTI ≤ 45.49%	≥ 640	-0.50
	600-639	-1.00

***100% COMBO HELOC AVAILABLE FOR FULL DOC & LIV.**

EasyWriter Special

(- 0.15) OFF IN RATE OR <.30> YSP*

* 0 PREPAY LOANS NOT ELIGIBLE FOR YSP
FILE MUST BE SUBMITTED USING EASYWRITER
*IF YOU ARE NOT AN EASYWRITER CUSTOMER, SEE YOUR AE FOR DETAILS
Special will be applied by FF underwriter

JULY PURCHASE SPECIAL

(-.50) RATE REDUCTION

Requires: 600-679 Fico; Purchase Only
AVAILABLE FOR ALL DOC TYPES
INTEREST ONLY AND 40 YEAR & 50 YEAR PRODUCTS ALLOWED
**(Cannot be combined with First Time Home Buyer Special)

BRANCH CONTACT INFORMATION

Bay Area Wholesale
900 E. Hamilton Ave, Suite #350, Campbell, CA 95008
Toll Free (800) 464-9425

EQUAL HOUSING LENDER

This information is intended for use by real estate professionals only, and is not to be distributed to the general public. All loan programs, terms and rates are subject to change without notice. Additional terms and conditions may apply. Loan approval, rate and terms are dependent on your borrower's credit score and financial history. © 2005 First Franklin. All rights reserved. First Franklin is an equal housing lender. First Franklin is a division of National City Bank of Indiana. The corporate office is located at 2150 North First Street, San Jose, CA 95131. Loan programs are not available in Alaska and Hawaii.

Figure A.1: **First Franklin Wholesale Mortgage Rate Sheet**

Countrywide CORRESPONDENT LENDING

Subprime First Mortgages

FULL DOCUMENTATION

Loan Amounts for Regular programs and Subprime 80/20

Maximum Loan Amount and Loan-to-Value (LTV)

As of 08/16/06

FULL DOC (incl. 12 months Bank Statements [3])						Owner-Occupied Primary Residence: SFR, PUD, Low-/High-Rise Condo, 2 Units (For other Occupancy and Property types, refer to "Occupancy/Property LTV Adjustment" table)									
Risk Grade	Mortgage Rating	Bankruptcy Discharged	Bankruptcy Dismissed	NOD/FC Released	Minimum Score	65%	70%	75%	80%	85%	90%	95%	100%	80-20 Combined	80-20 2nd Lien
AA+	0x30x12	1 day	2 yrs	3 yrs	700+	$1M	$1M	$1M	$1M	$850k	$750k	$700k	$700k	$1M	$200k
					680	$1M	$1M	$1M	$1M	$850k	$750k	$700k	$650k	$1M	$200k
					640	$1M	$1M	$1M	$1M	$850k	$750k	$700k	$650k	$850k	$170k
					620	$1M	$1M	$1M	$900k	$850k	$750k	$650k	$600k	$850k	$170k
					600	$1M	$1M	$1M	$900k	$800k	$750k	$600k	$600k	$750k	$150k
					580	$850k	$850k	$850k	$800k	$750k	$650k	$550k	na	$650k	$130k
					560	$750k	$750k	$750k	$700k	$650k	$600k	$500k	na	na	na
					540	$700k	$700k	$700k	$700k	$650k	$550k	na	na	na	na
					520	$700k	$700k	$700k	$650k	$550k	na	na	na	na	na
					500	$700k	$700k	$700k	$650k	na	na	na	na	na	na
AA	1x30x12 (See **** footnote) Rolling 30s 6x30 = 1[5]	1 day	2 yrs	3 yrs	660	$1M	$1M	$1M	$1M	$850k	$650k	$650k	$600k	$850k	$170k
					640	$1M	$1M	$1M	$1M	$850k	$650k	$600k	$600k	$850k	$170k
					600	$1M	$1M	$850k	$850k	$750k	$650k	$600k[1]	$600k[1]	$750k	$150k
					580	$850k	$850k	$850k	$850k	$750k	$650k	$550k[1]	na	na	na
					560	$750k	$750k	$750k	$700k	$650k	$600k	na	na	na	na
					540	$700k	$700k	$700k	$650k	$650k	$550k	na	na	na	na
					520	$700k	$700k	$700k	$650k	$550k	na	na	na	na	na
					500	$700k	$700k	$700k	$650k	na	na	na	na	na	na
A-	2x30x12 Rolling 30s 6x30 = 1[5]	1 day	2 yrs	3 yrs	620	$850k	$850k	$850k	$750k	$750k	$600k	na	na	na	na
					600	$750k	$750k	$750k	$750k	$750k	$600k	na	na	na	na
					580	$750k	$750k	$750k	$650k	$650k	$600k	na	na	na	na
					560	$650k	$650k	$650k	$650k	$650k	$600k	na	na	na	na
					540	$650k	$650k	$650k	$600k	$600k	$550k	na	na	na	na
					520	$650k	$650k	$650k	$600k	$550k	na	na	na	na	na
					500	$650k	$650k	$650k	$600k	na	na	na	na	na	na
B	1x60x12 Unlimited 30s No rolling 60s[5]	1 day	1 yr BK 13 buyout OK	2 yrs	600	$650k	$650k	$650k	$600k	$600k	na	na	na	na	na
					580	$650k	$650k	$650k	$600k	$550k	na	na	na	na	na
					560	$600k	$600k	$600k	$550k	$550k	na	na	na	na	na
					520	$600k	$600k	$600k	$550k	$550k	na	na	na	na	na
					500	$600k	$600k	$600k	$550k	na	na	na	na	na	na
C	1x90x12 Unlimited 30s/60s No rolling 90s	1 day	1 yr BK 13 buyout OK	1 yr	600	$600k	$600k	$600k	$550k	na	na	na	na	na	na
					580	$600k	$600k	$550k	$550k	na	na	na	na	na	na
					560	$550k	$550k	$550k	$500k	na	na	na	na	na	na
					540	$550k	$550k	$550k	$450k	na	na	na	na	na	na
					500	$550k	$550k	$550k	na	na	na	na	na	na	na
C-	2x90x12 No 120's Unlimited 30s/60s No rolling 90s	1 day	1 yr BK 13 buyout OK	No Open NOD/FC	500	$500k	$500k	na	na	na	na	na	na	na	na
DTI Ratios						55%	55%	55%	55%	55%[2]	55%[2]	50%	50%	50%	
Max Cash Out [4]						$500k				$150k		$100k			

For complete details, see Seller's Guide: Section 18.6, General Underwriting Guidelines for Subprime Loans, Section 19.1, Risk Grades, LTVs, and Loan Amounts or individual loan program guidelines.
For an Underwriting Summary, see Underwriting Notes tab in this matrix.

1 Cash-out is not allowed.
2 Borrowers must have twice the required disposable income.
3 12 months Bank Statements:
 — Min. 600 credit score for LTV/CLTV > 90%.
 — Non-self employed / W-2 borrowers: Max loan amount of $500,000 (individual or combined).
4 Chapter 13 BK Buyouts: Maximum $5,000 cash out after bankruptcy payoff.
5 If a mortgage shows serious delinquency (120 days or more past due in the last 36 months), the file should contain evidence that no foreclosure activity has taken place.

Misc. Notes:
— Credit Comeback program is available for 40-, 30-, or 15-year fixed-rate loan only.
— Form 4506-T is required on all Full Doc loans.

**** If 1x30 mortgage late is not rolling, AA+ guidelines may be used; however, AA pricing still applies.

OCCUPANCY / PROPERTY LTV ADJUSTMENTS

Property Type	Risk Grade	Owner-Occupied	Max $500,000 2nd Home	Max $500,000 Non-O/Occ
SFR (attached and detached) PUD Low & High-rise Condo/Twnhs	All	0	-10%	-10%
2 Units	All	0	N/A	-10%
3-4 Units	All, except C-	-10% *	N/A	-15%
Rural Housing	Restrictions apply. See Section 18.4 of the Seller's Guide, for details.			

* Maximum $500K. Borrower cannot own any other real estate in whole or in part.

CLTV TABLE
(Countrywide only purchases the first lien)

Credit Score	Max CLTV ≤ 80% LTV	Max CLTV > 80% LTV [2]
560	100% [1]	90%
540	95%	90%
520	90%	90%
500	90%	Not Allowed

1 SFRs, PUDs and condo. Owner-occupied, primary residences only.
2 Secondary financing not allowed with LTVs greater than 90%.

INTEREST-ONLY

Guideline	Restriction
Risk Grades	AA+, AA and A- only.
Ineligible	— Rural Properties — 10, 20, 25, and 40/40 terms — Credit Comeback program
Min. Credit Score	560

FIRST-TIME HOMEBUYERS WITHOUT 12 MONTHS' RENTAL VERIFICATION

	< 620	≥ 620
2 Units	90% LTV/CLTV	95% LTV/CLTV
Non-owner Occ. 2nd Home 3-4 Unit	80% LTV/CLTV	85% LTV/CLTV
DTI	LTV/CLTV ≤ 95%: 50% LTV/CLTV > 95%: 45% (50% w/2 mo. reserves)	50%

80/20 Program	
Options	80/15/5, 80/10/10, 75/25 options also available.
Terms	10-year term not allowed.
Geographic Restrictions	Ineligible in Arkansas. Some eligible states are subject to additional restrictions.

Refer to Sections 20.3, Subprime 80/20 Program for details.

Subprime Matrix 8/15/2006 Page 1 of 5

Figure A.2: **Countrywide Wholesale Mortgage Rate Sheet**

Countrywide®
CORRESPONDENT LENDING

Subprime First Mortgages

STATED DOCUMENTATION (Self-employed)

Loan Amounts for Regular programs and Subprime 80/20

Maximum Loan Amount and Loan-to-Value (LTV)

As of 08/16/06

STATED DOC: Self-Employed						Owner-Occupied Primary Residence: SFR, PUD, Low-/High-Rise Condo, 2 Units (For other Occupancy and Property types please see Occupancy/Property LTV Adjustment Matrix.)									
Risk Grade	Mortgage Rating	Bankruptcy Discharged	Bankruptcy Dismissed	NOD/FC Released	Minimum Score	65%	70%	75%	80%	85%	90%	95%	100%[2]	80-20% Combined	80-20% 2nd Lien
AA+	0x30x12	1 day	2 yrs	3 yrs	700+	$1M	$1M	$1M	$1M	$850k	$750k	$700k	$700k	$1M	$200k
					680	$1M	$1M	$1M	$1M	$850k	$750k	$700k	$650k	$1M	$200k
					640	$1M	$1M	$1M	$1M	$850k	$600k	$600k	$550k	$850k	$170k
					620	$1M	$1M	$1M	$900k	$850k	$600k	$550k	na	na	na
					600	$1M	$1M	$900k	$750k	$650k	$600k	na	na	na	na
					580	$850k	$850	$800k	$650k	$600k	$550k	na	na	na	na
					560	$750k	$750k	$700k	$600k	$550k	na	na	na	na	na
					540	$700k	$700k	$650k	$600k	$550k	na	na	na	na	na
					520	$700k	$700k	$650k	$550k	$450k	na	na	na	na	na
					500	$700k	$700k	$650k	$550k	na	na	na	na	na	na
AA	1x30x12 (See **** footnote) Rolling 30s 6x30 = 1[4]	1 day	2 yrs	3 yrs	640	$1M	$1M	$900k	$800k	$700k	$550k	na	na	na	na
					600	$1M	$1M	$800k	$700k	$600k	$550k	na	na	na	na
					580	$850k	$850k	$800k	$700k	$600k	$550k	na	na	na	na
					560	$750k	$750k	$700k	$600k	$550k	na	na	na	na	na
					540	$700k	$700k	$650k	$550k	$550k	na	na	na	na	na
					520	$700k	$700k	$650k	$550k	na	na	na	na	na	na
					500	$700k	$700k	$650k	na	na	na	na	na	na	na
A-	2x30x12 Rolling 30s 6x30 = 1[4]	1 day	2 yrs	3 yrs	620	$850k	$800k	$700k	$600k	$600k	na	na	na	na	na
					600	$750k	$700k	$600k	$600k	$600k	na	na	na	na	na
					580	$750k	$700k	$600k	$550k	$550k	na	na	na	na	na
					560	$650k	$600k	$550k	$550k	$550k	na	na	na	na	na
					520	$650k	$600k	$550k	$500k	na	na	na	na	na	na
					500	$650k	$600k	$550k	na	na	na	na	na	na	na
B	1x60x12 Unlimited 30s No rolling 60s	1 day	1 yr BK Buyout OK	2 yrs	580	$550k	$500k	$500k	na	na	na	na	na	na	na
					500	$500k	$500k	$500k	na	na	na	na	na	na	na
C	1x90x12 Unlimited 30s/60s No rolling 90s	1 day	1 yr BK Buyout OK	1 yr	500	$400k	$350k	na	na	na	na	na	na	na	na
						55%	55%	55%	55%	55%[1]	55%[1]	50%	50%	50%	
Max Cash Out[3]						$250k				$150k		$100k			

For complete details, see Seller's Guide: Section 18.8, General Underwriting Guidelines for Subprime Loans, Section 18.1, Risk Grades, LTVs, and Loan Amounts or individual loan program guidelines.

For an Underwriting Summary, see Underwriting Notes tab in this matrix.

[1] DTI Ratios: Borrowers must have twice the required disposable income. Non-owner occupied properties eligible to maximum 50%.

[2] Reserves required for first-time homebuyers. See Underwriting Notes page for details.

[3] Chapter 13 BK Buyouts: Maximum $5,000 cash out after bakruptcy payoff.

[4] If a mortgage shows serious delinquency (120 days or more past due in the last 36 months), the file should contain evidence that no foreclosure activity has taken place.

Misc. Notes:
— Credit Comeback program is available for 40-, 30-, or 15-year fixed-rate loan only.

**** If 1x30 mortgage late is not rolling, AA+ guidelines may be used; however, AA pricing still applies.

OCCUPANCY / PROPERTY LTV ADJUSTMENTS

Property Type	Risk Grade	Owner-Occupied	Max $500,000 2nd Home	Max $500,000 Non-O/Occ
SFR (attached and detached) PUD Low & High-rise Condo/Twnhs	All	0	-10%	-10% [2]
2 Units	All	0	N/A	N/A
3-4 Units	All	-10% [1]	N/A	N/A
Rural Housing	Restrictions apply. See Section 18.4 of the Seller's Guide for details.			

[1] Maximum $500K. Borrower cannot own any other real estate in whole or in part

[2] Eligible subject to the following restrictions:
— AA+ risk grade only.
— 620 minimum credit score.
— Interest-only option is not allowed.
— Credit Comeback program is not allowed.
— Borrowers who own five or more properties, including subject property, are not allowed.

80/20 PROGRAM	
Options	80/15/5, 80/10/10, 75/25 options also available.
Terms	10-, 20-, 25- year terms not allowed.
Geographic Restrictions	Ineligible in Arkansas. Some eligible states are subject to additional restrictions.

Refer to Sections 20.3, Subprime 80/20 Program for details.

CLTV TABLE
(Countrywide only purchases the first lien)

Credit Score	Max CLTV ≤ 80% LTV	Max CLTV > 80% LTV [2]
560	100% [1]	90%
540	95%	90%
520	90%	90%
500	90%	Not Allowed

[1] SFRs, PUDs and condo. Owner-occupied, primary residences only.

[2] Secondary financing not allowed with LTVs greater than 90%.

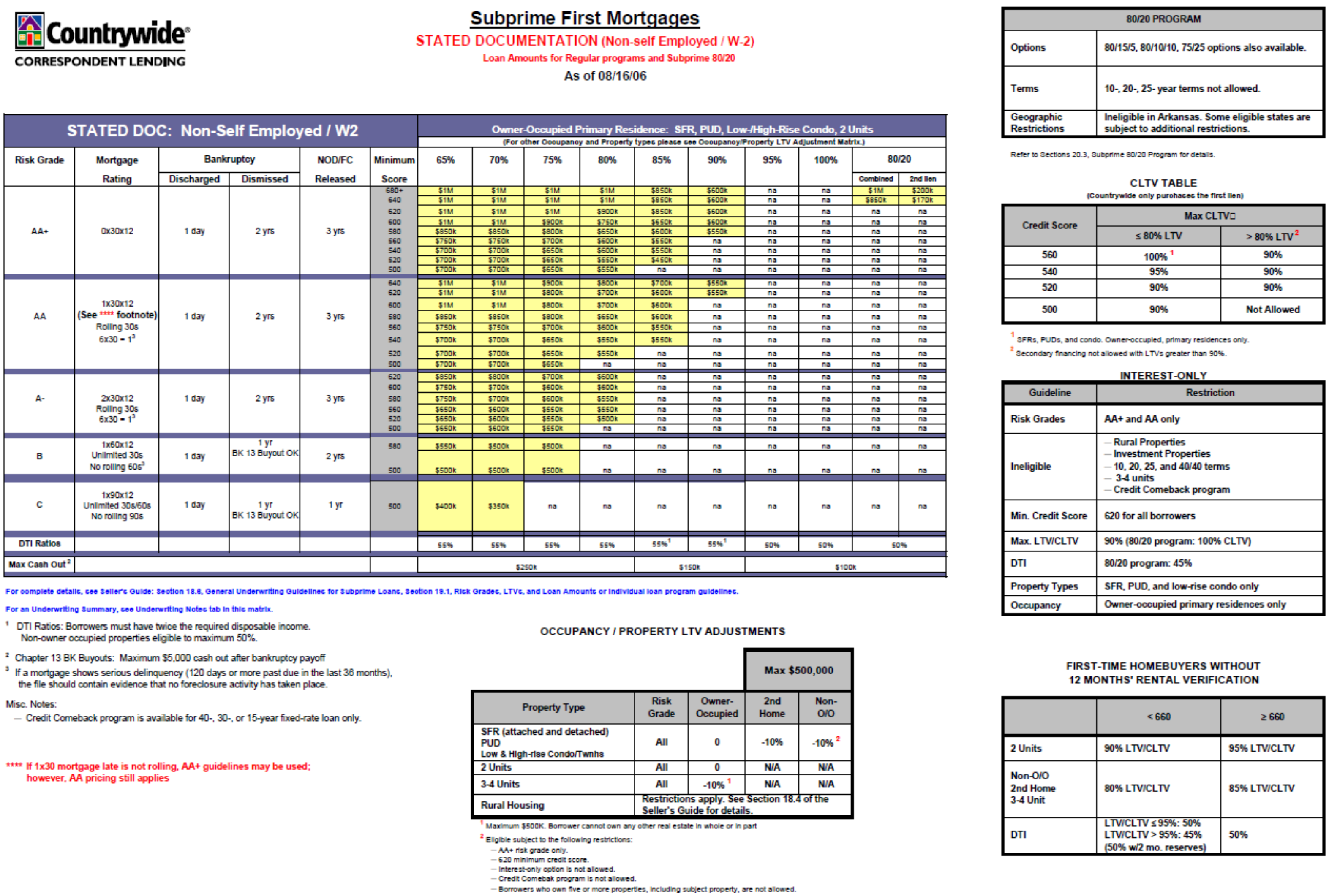
INTEREST-ONLY

Guideline	Restriction
Risk Grades	AA+, AA and A- only
Ineligible	— Rural Properties — Investment Properties — 10, 20, 25, and 40/40 terms — Credit Comeback program
Min. Credit Score	560
Max. LTV/CLTV	95% (80/20 program: 100% CLTV)
DTI	80/20 program: 45%

FIRST-TIME HOMEBUYERS WITHOUT 12 MONTHS' RENTAL VERIFICATION

	< 660	≥ 660
2 Units	90% LTV/CLTV	95% LTV/CLTV
Non-O/Occupied 2nd Home 3-4 Unit	80% LTV/CLTV	85% LTV/CLTV
DTI	LTV/CLTV ≤ 95%: 50% LTV/CLTV > 95%: 45% (50% w/2 mo. reserves)	50%

Figure A.3: **Countrywide Wholesale Mortgage Rate Sheet (Stated Documentation)**



Countrywide CORRESPONDENT LENDING

Subprime First Mortgages

STATED DOCUMENTATION (Non-self Employed / W-2)

Loan Amounts for Regular programs and Subprime 80/20

As of 08/16/06

STATED DOC: Non-Self Employed / W2						Owner-Occupied Primary Residence: SFR, PUD, Low-/High-Rise Condo, 2 Units (For other Occupancy and Property types please see Occupancy/Property LTV Adjustment Matrix.)									
Risk Grade	Mortgage Rating	Bankruptcy		NOD/FC Released	Minimum Score	65%	70%	75%	80%	85%	90%	95%	100%	80/20	
		Discharged	Dismissed											Combined	2nd lien
AA+	0x30x12	1 day	2 yrs	3 yrs	680+	$1M	$1M	$1M	$1M	$850k	$600k	na	na	$1M	$200k
					640	$1M	$1M	$1M	$1M	$850k	$600k	na	na	$850k	$170k
					620	$1M	$1M	$1M	$900k	$850k	$600k	na	na	na	na
					600	$1M	$1M	$900k	$750k	$650k	$600k	na	na	na	na
					580	$850k	$850k	$800k	$650k	$600k	$550k	na	na	na	na
					560	$750k	$750k	$700k	$600k	$550k	na	na	na	na	na
					540	$700k	$700k	$650k	$600k	$550k	na	na	na	na	na
					520	$700k	$700k	$650k	$550k	$450k	na	na	na	na	na
					500	$700k	$700k	$650k	$550k	na	na	na	na	na	na
AA	1x30x12 (See **** footnote) Rolling 30s 6x30 = 1[3]	1 day	2 yrs	3 yrs	640	$1M	$1M	$900k	$800k	$700k	$550k	na	na	na	na
					620	$1M	$1M	$800k	$700k	$600k	$550k	na	na	na	na
					600	$1M	$1M	$800k	$700k	$600k	na	na	na	na	na
					580	$850k	$850k	$800k	$650k	$600k	na	na	na	na	na
					560	$750k	$750k	$700k	$600k	$550k	na	na	na	na	na
					540	$700k	$700k	$650k	$550k	$550k	na	na	na	na	na
					520	$700k	$700k	$650k	$550k	na	na	na	na	na	na
					500	$700k	$700k	$650k	na	na	na	na	na	na	na
A-	2x30x12 Rolling 30s 6x30 = 1[3]	1 day	2 yrs	3 yrs	620	$850k	$800k	$700k	$600k	na	na	na	na	na	na
					600	$750k	$700k	$600k	$600k	na	na	na	na	na	na
					580	$750k	$700k	$600k	$550k	na	na	na	na	na	na
					560	$650k	$600k	$550k	$550k	na	na	na	na	na	na
					520	$650k	$600k	$550k	$500k	na	na	na	na	na	na
					500	$650k	$600k	$550k	na	na	na	na	na	na	na
B	1x60x12 Unlimited 30s No rolling 60s[3]	1 day	1 yr BK 13 Buyout OK	2 yrs	580	$550k	$500k	$500k	na	na	na	na	na	na	na
					500	$500k	$500k	$500k	na	na	na	na	na	na	na
C	1x90x12 Unlimited 30s/60s No rolling 90s	1 day	1 yr BK 13 Buyout OK	1 yr	500	$400k	$350k	na	na	na	na	na	na	na	na
DTI Ratios						55%	55%	55%	55%	55%[1]	55%[1]	50%	50%	50%	
Max Cash Out[2]						$250k				$150k		$100k			

For complete details, see Seller's Guide: Section 18.6, General Underwriting Guidelines for Subprime Loans, Section 19.1, Risk Grades, LTVs, and Loan Amounts or individual loan program guidelines.

For an Underwriting Summary, see Underwriting Notes tab in this matrix.

[1] DTI Ratios: Borrowers must have twice the required disposable income.
Non-owner occupied properties eligible to maximum 50%.

[2] Chapter 13 BK Buyouts: Maximum $5,000 cash out after bankruptcy payoff

[3] If a mortgage shows serious delinquency (120 days or more past due in the last 36 months), the file should contain evidence that no foreclosure activity has taken place.

Misc. Notes:
— Credit Comeback program is available for 40-, 30-, or 15-year fixed-rate loan only.

**** If 1x30 mortgage late is not rolling, AA+ guidelines may be used; however, AA pricing still applies

OCCUPANCY / PROPERTY LTV ADJUSTMENTS

Property Type	Risk Grade	Owner-Occupied	2nd Home (Max $500,000)	Non-O/O (Max $500,000)
SFR (attached and detached) PUD Low & High-rise Condo/Twnhs	All	0	-10%	-10% [2]
2 Units	All	0	N/A	N/A
3-4 Units	All	-10% [1]	N/A	N/A
Rural Housing	Restrictions apply. See Section 18.4 of the Seller's Guide for details.			

[1] Maximum $500K. Borrower cannot own any other real estate in whole or in part

[2] Eligible subject to the following restrictions:
— AA+ risk grade only.
— 620 minimum credit score.
— Interest-only option is not allowed.
— Credit Comebak program is not allowed.
— Borrowers who own five or more properties, including subject property, are not allowed.

80/20 PROGRAM	
Options	80/15/5, 80/10/10, 75/25 options also available.
Terms	10-, 20-, 25- year terms not allowed.
Geographic Restrictions	Ineligible in Arkansas. Some eligible states are subject to additional restrictions.

Refer to Sections 20.3, Subprime 80/20 Program for details.

CLTV TABLE
(Countrywide only purchases the first lien)

Credit Score	Max CLTV ≤ 80% LTV	Max CLTV > 80% LTV [2]
560	100% [1]	90%
540	95%	90%
520	90%	90%
500	90%	Not Allowed

[1] SFRs, PUDs, and condo. Owner-occupied, primary residences only.

[2] Secondary financing not allowed with LTVs greater than 90%.

INTEREST-ONLY

Guideline	Restriction
Risk Grades	AA+ and AA only
Ineligible	— Rural Properties — Investment Properties — 10, 20, 25, and 40/40 terms — 3-4 units — Credit Comeback program
Min. Credit Score	620 for all borrowers
Max. LTV/CLTV	90% (80/20 program: 100% CLTV)
DTI	80/20 program: 45%
Property Types	SFR, PUD, and low-rise condo only
Occupancy	Owner-occupied primary residences only

FIRST-TIME HOMEBUYERS WITHOUT 12 MONTHS' RENTAL VERIFICATION

	< 660	≥ 660
2 Units	90% LTV/CLTV	95% LTV/CLTV
Non-O/O 2nd Home 3-4 Unit	80% LTV/CLTV	85% LTV/CLTV
DTI	LTV/CLTV ≤ 95%: 50% LTV/CLTV > 95%: 45% (50% w/2 mo. reserves)	50%

Figure A.4: **Countrywide Wholesale Mortgage Rate Sheet (Stated Documentation / W2)**

Full and Limited Doc ARM* Wholesale Rate Sheet

CREDIT Lates	Score	65%	70%	75%	80%	85%	90%	95%	100% ADV	80/20 1st	80/20 2nd
0 x 30 and No BK/NOD in the last 24 months	680	6.10	6.70	6.75	6.80	6.90	7.25	7.70	8.55	6.95	10.35
	640	6.65	6.75	6.80	6.95	7.00	7.45	7.80	8.80	7.10	11.05
	620	6.70	6.80	6.85	7.05	7.30	7.55	7.90	9.55	7.20	11.45
	600	6.95	7.05	7.15	7.30	7.60	7.85	8.30	10.10	7.25	12.10
	580	7.05	7.10	7.20	7.40	7.75	8.40	9.05	10.85		
	550	7.50	7.55	7.70	7.75	8.25	8.90				
	525	8.00	8.10	8.25	8.30	8.75					
	500	8.50	8.60	8.75	8.80						
1 x 30 and No BK/NOD in the last 24 months	680	6.60	6.80	6.85	6.90	7.25	7.35	7.95		7.05	10.45
	640	6.75	6.85	6.90	7.00	7.30	7.55	8.05		7.15	11.10
	620	6.85	6.90	7.05	7.10	7.40	7.65	8.15		7.25	11.50
	600	7.10	7.15	7.30	7.35	7.70	7.95	8.45		7.30	12.15
	580	7.40	7.50	7.60	7.80	8.20	8.65	9.85			
	550	7.85	8.00	8.15	8.30	8.70	9.10				
	525	8.30	8.45	8.65	8.75	9.10					
	500	8.70	8.85	9.05	9.15						
3 x 30 and No BK/NOD in the last 24 months	680	6.65	6.85	6.90	6.95	7.30	7.45	8.05			
	640	6.80	6.90	6.95	7.05	7.35	7.65	8.15			
	620	6.90	6.95	7.10	7.15	7.45	7.75	8.25			
	600	7.15	7.20	7.35	7.40	7.75	8.05	8.55			
	580	7.50	7.60	7.70	7.90	8.30	8.75	9.95			
	550	7.95	8.10	8.25	8.40	8.80	9.20				
	525	8.45	8.60	8.80	8.85	9.25					
	500	8.85	9.00	9.20	9.30						
1 x 60 and No BK/NOD in the last 12 months	680	7.05	7.15	7.30	7.40	8.05	9.10				
	640	7.15	7.25	7.40	7.50	8.25	9.30				
	620	7.25	7.35	7.50	7.65	8.50	9.40				
	600	7.55	7.60	7.75	7.80	8.65	9.80				
	580	7.85	7.95	8.15	8.25	8.85	10.00				
	550	8.40	8.50	8.65	8.80	9.25	10.30				
	525	8.60	8.70	8.85	8.90						
	500	9.10	9.20	9.35	9.40						
1 x 90 and BK/NOD in the last 12 months	680	7.65	7.75	7.85	8.05						
	640	7.80	7.90	8.00	8.20						
	620	8.00	8.10	8.20	8.40						
	600	8.15	8.25	8.35	8.55						
	580	8.35	8.45	8.55							
	550	8.65	8.75	8.90							
	525	8.85	9.00	9.15							
	500	9.45	9.70	10.20							
1 x 120	680	9.65	10.45	10.60							
	640	9.80	10.75	10.90							
	620	10.00	10.90								
	600	10.15	10.95								
	580	10.35	11.20								
	550	10.85	11.25								
	525	11.40	12.05								
	500	11.90	12.20								
Max Debt Ratio ►		55%	55%	55%	50%	50%	50%	50%	50%	50%	50%

■ = Million Dollar Limits

BUY-UP and DOWN (Max 2%)

Buy-up	Rate-up	Buy-down
0.50	0.250	All products 0.500 for 1% fee
0.75	0.375	
1.00	0.500	
1.25	0.687	
1.50	0.875	
1.75	1.062	
2.00	1.250	

Loan Amt > $750K, Max Rebate 1%

Margins on ARM's = 6%
Index = 6 Month LIBOR

Purchase Special Rates Reduced up to 35 bps!
Prime Advantage, Credit Advantage, 80/20 Combo Advantage, (1st Lien Only)

All Doc types, Loan Amount >=$150,000

ADJUSTMENTS

Type	Characteristics	Rate	LTV
Purpose	Purchase	0.000	
Income Doc	Limited (6 mos Bank Statements)	0.250	
Occupancy	Non-owner	0.750	-5
	Second home	0.000	-5
Property	Condo and 2 units	0.250	
	3-4 units, rural	0.500	-10
Prepayment (1st Mtg)	For each yr reduced	0.500	
	Waive (all products)	1.000	
Loan Amount (1st Mtg)	$50,000 to $219,999	0.250	
	$220,000 to $299,999	0.000	
	$300,000 to $639,999	-0.250	
	$640,000 to $1,250,000	-0.250	
Program	Credit Adv	0.500	
	Prime Adv	0.000	
	100%	0.000	
	80/20 combo	0.000	
Product (1st Mtg)	ARM	0.000	
	Fixed	0.650	
Payment Terms (1st Mtg)	Interest Only 5 yr	0.200	
	40 yr Reduced Pymt	0.100	

PRIME ADVANTAGE

Max Loan Amount $1,250,000
Max Cash Out $50,000 when open collections/charge offs > $5,000
Disregard collections/charge offs that are over 24 months old
Rural properties cannot exceed 80% LTV

Loan Amounts > $500,000
Exclusions: rural properties, non-owner, 2nd homes; Max Cash out $100,000; Max Buy-Up 2%; Minimum 2 months PITI
Max LTV 95% ($500,001-$600,000); Max LTV 90% ($600,001-$650,000); Max LTV 85% ($650,001-$850,000)

Between $850,001 and $1,250,000
Exclusions: Interest only, 40 yr reduced payment
See shaded area to determine Max LTV

Minimum Rate: ARM - 6.10; Fixed - 6.75

CREDIT ADVANTAGE - High Score Determines Pricing

Exclusions: rural properties, non-owner, 2nd homes and 1x120 or greater
Max Loan Amount $750,000
Max LTV 90% up to $650,000, Max LTV 85% ($650,001 - $750,000)
Minimum Middle FICO > = 500 Minimum Rate: ARM - 6.60; Fixed - 7.25

100% ADVANTAGE

Exclusions: rural, non-owner, 2nd homes, 3-4 Units
Minimum 2 months PITI
All delinquent credit should be brought current or paid off
Minimum Loan Amount $75,000; Max Loan Amount $500,000
Max Cash Out $50,000; LTVs > 95 %; Interest Only Option NOT offered.
Minimum Rate: ARM - 8.55; Fixed - 9.20

80/20 COMBO ADVANTAGE

Exclusions: rural properties, non-owner, 2nd homes, 3-4 Units
All delinquent credit should be brought current or paid off
Max Combined Cash Out $25,000; 2nd Mortgage is fixed note with no prepay penalty; No Buy-Up or Buy-Down allowed on 2nd Mortgage

Loan Amount	Max	Min
1st Mortgage	$680,000	$80,000
2nd Mortgage	$170,000	$20,000
Total Combined	$850,000	$100,000

Minimum Rate for 1st Mortgage: ARM - 5.45; Fixed - 6.48
Minimum Rate for 2nd Mortgage: 10.35

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40/30 and Interest Only

All Program specific guidelines apply, plus the following rules:
Prime Advantage & Credit Advantage
- Exclusions: non-owner, fixed income borrowers
- Additional exclusions for 40 yr Reduced Payment: Rural, 3-4 units
- Maximum delinquency 3x30 and No BK/NOD in last 24 months
- Max Debt Ratio 50%; Initial payment used for qualification
- Interest Only minimum middle FICO > = 600 for Prime Advantage and >= 620 for Credit Advantage
- 40yr Reduced Payment minimum middle FICO > = 550
- Max LTV: 95% Prime Advantage; 90% Credit Advantage

100% Advantage & 80/20 Combo Advantage
- Exclusions: fixed income borrowers
- Add. exclusions for Interest Only: 100% Program
- Applies to 1st lien of 80/20 Combo Advantage
- Interest Only min middle FICO >= 620
- 40yr Reduced Payment min middle FICO >= 600
- Initial payment used for qualification

MAXIMUM FEES

AMC Fees - $999; Misc Broker Fees - $1,500
Points and APR Fees combined:
Owr Occ & Ln Amt <=$417,000 6.00%
Owr Occ & Ln Amt >$417,000 7.50%
Non-Owner and Second Home 7.50%
Total Broker fees including PYA not to exceed 5% of loan amount

NOTES AND LIMITATIONS

Orig fee, PYA, and other broker fees limited to 5% of Loan Amt
Tri-merged credit report only
Prime & Credit Advantage min. loan amount is $50,000
*ARM represents 2/28 and 3/27; Terms Available: 30-, 20-, and 15- year
Margins on ARM's = 6% over LIBOR. Initial Cap = 2%. Periodic Cap (six months) = 1%.
Lifetime Cap = 6%.
Par rates for 2/28 with 2 year prepay (max 2 years)
Par rates for 3/27 with 3 year prepay (max 3 years)
Par rates for Fixed with 3 year prepay (max 3 years)

MORTGAGEE CLAUSE:
Argent Mortgage Company, LLC
Its Successors and/or Assigns
PO Box 11056 Orange, CA 92856

SEND SUBMISSIONS TO:
1 City Boulevard West
Suite 1500 Orange, CA 92868
T-Box: OR 0162

Upon approval of a completed loan submission Argent will issue a written or electronic Loan Approval which constitutes a commitment to fund the loan on the terms and conditions contained therein. No other verbal or written statements regarding loan terms or pricing are valid. Prior to issuance of the loan approval, all rates and programs are subject to change based on the latest effective rate sheet published on www.argentmortgage.com. For mortgage professionals only - not for consumer use.
CA - Loans will be made pursuant to a California Department of Corporations Finance Lenders Licenses.

EQUAL HOUSING LENDER

Figure A.5: **Argent Wholesale Mortgage Rate Sheet**

A.4. Additional Results

Table A2: Comparison of New Century Data to loans originated in 2004 and 2005 as reported in Demyanyk and Van Hemert (2011).

Variable	Demyanyk and Van Hemert Sample	New Century Data
Loan Amount	\$190,000	\$193,000
FRM	21%	23%
Refinance	61%	66%
FICO	620	613
CLTV	84%	83%
Investor	8%	8%
Full-Doc	73%	60%
Rate	7.40%	7.70%

Table A3: Relationship Between Low-doc, Employment Type, and Mortgage Performance (OLS)

	[1]		[2]	
	Default		**Default**	
Dependent Variable: Default	**Coeff.**	**Std. Err.**	**Coeff.**	**Std. Err.**
Employment Type				
W2	-0.0075***	(0.0017)	-0.0068***	(0.0017)
Documentation Type				
Low-Doc	0.0015	(0.0020)	0.0017	(0.0020)
Low-Doc × W2	0.0064***	(0.0021)	0.0058***	(0.0021)
Loan Characteristics	Yes		Yes	
Property Characteristics	Yes		Yes	
Borrower Characteristics	Yes		Yes	
Interest rate environment	Yes		Yes	
Area Characteristics	Yes		Yes	
Origination Year Fixed Effects	Yes		Yes	
MSA Fixed Effects	No		Yes	
N	455,546		455,546	
Mean Default Rate (Full-doc Self-Employed)	0.0512		0.0512	
Mean Default Rate (Full-doc W2)	0.0478		0.0478	
Adj. R^2	0.05		0.06	

Note: The coefficient estimates are derived from a linear probability model of mortgage performance on income documentation, employment type, an interaction term between income documentation and employment type, loan characteristics, borrower characteristics, property characteristics, and area characteristics for the funded loans from the New Century database. Heteroskedasticity-robust standard errors adjusted for clustering at the MSA level are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table A4: Relationship Between Low-doc, Employment Type, and Mortgage Performance Over Different Time Windows

	[1]		[2]	
	Default 12 months		**Default 36 Months**	
Dependent Variable: Default	**M.E.**	**Std. Err.**	**M.E.**	**Std. Err.**
Marginal Effects of Low-Doc				
Self-Employed (*Lowdoc*)	0.0048***	(0.0015)	0.0057***	(0.0019)
W2 (*Lowdoc*)	0.0094***	(0.0010)	0.0129***	(0.0013)
Loan Characteristics	Yes		Yes	
Property Characteristics	Yes		Yes	
Borrower Characteristics	Yes		Yes	
Interest rate environment	Yes		Yes	
Area Characteristics	Yes		Yes	
Origination Year Fixed Effects	Yes		Yes	
MSA Fixed Effects	No		Yes	
N	454,326		455,058	
Mean Default Rate (Full-doc Self-Employed)	0.0291		0.0571	
Mean Default Rate (Full-doc W2)	0.0279		0.0526	
Log Likelihood	-52,979		-81,052	

Note: This table presents marginal effects of *Lowdoc* on default by employment type. The marginal effects are derived from a probit model of mortgage performance on income documentation, employment type, an interaction term between income documentation and employment type, loan characteristics, borrower characteristics, property characteristics, and area characteristics for the funded loans from the New Century database. In Column [1], a loan is defined as in default if it becomes 60 plus days delinquent within the first 12 months after origination. In Column [2], a loan is defined as in default if it becomes 60 plus days delinquent within the first 36 months after origination. Heteroskedasticity-robust standard errors adjusted for clustering at the MSA level are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table A5: Probit Model of Extreme Income Exaggeration

	[1]		[2]	
	INC_EXTREME_75		**INC_EXTREME_90**	
Dependent Variable: INC_EXTREME	**Coeff.**	**Std. Err.**	**Coeff.**	**Std. Err.**
Marginal Effects of Low-Doc				
Self-Employed (*Lowdoc*)	-0.0346***	(0.0109)	-0.0367***	(0.0049)
W2 (*Lowdoc*)	0.0333***	(0.0054)	0.0152***	(0.0038)
Loan Characteristics	Yes		Yes	
Property Characteristics	Yes		Yes	
Borrower Characteristics	Yes		Yes	
Interest rate environment	Yes		Yes	
Area Characteristics	Yes		Yes	
Origination Year Fixed Effects	Yes		Yes	
MSA Fixed Effects	Yes		Yes	
N	449,916		449,916	
Log Likelihood	-246,687		-139,277	

Note: This table presents marginal effects estimates from a probit model of *INC_EXTREME* on type of income documentation, loan characteristics, borrower characteristics, property characteristics, and area characteristics for the funded loans. In Column [1], *INC_EXTREME* takes a value of one if *INC_EXAG* falls in the top quartile for the borrower's employment type (e.g. W2 or self-employed). In Column [2], *INC_EXTREME* takes a value of one if *INC_EXAG* falls in the top decile for the borrower's employment type (e.g. W2 or self-employed). Heteroskedasticity-robust standard errors adjusted for clustering at the MSA level are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table A6: Probability Model of Extreme Income Exaggeration (OLS)

	[1]		[2]	
	INC_EXTREME_75		**INC_EXTREME_90**	
Dependent Variable: INC_EXTREME	**Coeff.**	**Std. Err.**	**Coeff.**	**Std. Err.**
Employment Type				
W2	-0.0355***	(0.0024)	-0.0355***	(0.0024)
Income Documentation				
Low-Doc	-0.0333***	(0.0106)	-0.0347***	(0.0043)
Low-Doc x W2	0.0674***	(0.0098)	0.0506***	(0.0048)
Loan Characteristics	Yes		Yes	
Property Characteristics	Yes		Yes	
Borrower Characteristics	Yes		Yes	
Interest rate environment	Yes		Yes	
Area Characteristics	Yes		Yes	
Origination Year Fixed Effects	Yes		Yes	
MSA Fixed Effects	Yes		Yes	
Constant	0.1649***	(0.0185)	0.1185******	(0.0143)
N	449,916		449,916	
Adj. R^2	0.01		0.01	

Note: This table presents coefficient estimates from a linear probability model of *INC_EXTREME* on type of income documentation, loan characteristics, borrower characteristics, property characteristics, and area characteristics for the funded loans. In Column [1], *INC_EXTREME* takes a value of one if *INC_EXAG* falls in the top quartile for the borrower's employment type (e.g. W2 or self-employed). In Column [2], *INC_EXTREME* takes a value of one if *INC_EXAG* falls in the top decile for the borrower's employment type (e.g. W2 or self-employed). Heteroskedasticity-robust standard errors adjusted for clustering at the MSA level are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table A7: Results from Figure 4 in Tabular Form

	Default	
Dependent Variable: Default	**M.E.**	**Std. Err.**
Marginal Effects of Low-Doc		
Self-Employed		
INC_EXAG = -0.530 (*Lowdoc*)	0.0092***	(0.0030)
INC_EXAG = -0.296 (*Lowdoc*)	0.0076***	(0.0022)
INC_EXAG = -0.062 (*Lowdoc*)	0.0060***	(0.0018)
INC_EXAG = 0.172 (*Lowdoc*)	0.0045**	(0.0019)
INC_EXAG = 0.406 (*Lowdoc*)	0.0030	(0.0024)
INC_EXAG = 0.640 (*Lowdoc*)	0.0016	(0.0030)
W2		
INC_EXAG = -0.530 (*Lowdoc*)	0.0031*	(0.0018)
INC_EXAG = -0.296 (*Lowdoc*)	0.0071***	(0.0013)
INC_EXAG = -0.062 (*Lowdoc*)	0.0107***	(0.0010)
INC_EXAG = 0.172 (*Lowdoc*)	0.0140***	(0.0009)
INC_EXAG = 0.406 (*Lowdoc*)	0.0170***	(0.0012)
INC_EXAG = 0.640 (*Lowdoc*)	0.0197***	(0.0016)
Loan Characteristics	Yes	
Property Characteristics	Yes	
Borrower Characteristics	Yes	
Interest rate environment	Yes	
Area Characteristics	Yes	
Origination Year Fixed Effects	Yes	
N	449,917	

Note: This table presents marginal marginal effects of low-doc at different levels of estimated income exaggeration by employment type. -0.57 and 1.02 are the 5th and 95th percentiles of income exaggeration, respectively. The marginal effects are derived from the probit model of mortgage default described in equation (10) for the funded loans from the New Century database. Bootstrap standard errors are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table A8: Job-Specific Overstatement by Employment Type within the California and Florida

Panel A Borrower Business Types that have at least 10 full- and 10 low-doc observations within California	[1] W2	[2] Self-employed
Job-Specific Overstatement	14.22%	-8.59%
% of Borrower Business Types with Job-Specific Overstatement > 0	77.00%	22.22%
% of Borrower Business Types with Job-Specific Overstatement Significantly > 0	44.00%	0.00%
N	100	18
Panel B Borrower Business Types that have at least 10 full- and 10 low-doc observations within Florida	[1] W2	[2] Self-employed
Job-Specific Overstatement	23.39%	0.45%
% of Borrower Business Types with Job-Specific Overstatement > 0	97.62%	75.00%
% of Borrower Business Types with Job-Specific Overstatement Significantly > 0	61.90%	0.00%
N	42	4

Note: This table presents summary statistics by employment type for *Job-Specific Overstatement*. Column [1] in Panel A includes borrower business types that had at least 10 full-doc/W2 and 10 low-doc/W2 observations in California. Column [2] in Panel A includes borrower business types that had at least 10 full-doc/self-employed and 10 low-doc/self-employed observations in California. Column [3] reports mean differences between columns [1] and [2]. We perform a one tail mean difference test with the null hypothesis that the low-doc average income is less than or equal to the full-doc income for each of the borrower business types. *% of Borrower Business Types with Job-Specific Overstatement Significantly > 0* reports the percentage of borrower business types for which we were able to reject the null hypothesis. There are 8,639 (6,300) observations in the 100 (18) different W2 (self-employed) borrower business types within California in Panel A. Panel B includes borrower business types that have at least 10 low-doc/W2 (self-employed) and 10 full-doc/W2 (self-employed) observations in Florida. There are 3,099 (1,516) observations in the 42 (4) different W2 (self-employed) borrower business types within Florida in Panel B.

Table A9: MSA House Price Changes and Low-Doc Share of Originations

	[1] Δ HPI (2006-2007)		[2] Δ HPI (2006-2008)		[3] Δ HPI (2006-2009)	
Dependent Variable: Δ House Price	Coeff.	Std. Err.	Coeff.	Std. Err.	Coeff.	Std. Err.
% Low-Doc (2004 - 2005)	0.3236	(0.2753)	0.4837	(0.3318)	0.0771	(0.3844)
% of Low-Doc that are W2	0.1323	(0.1341)	0.3486**	(0.1557)	0.1552	(0.1884)
% Low-Doc × % of Low-Doc that are W2	-0.3161	(0.4313)	-0.7075	(0.5273)	-0.2495	(0.6036)
Δ HPI (2000-2005)	-0.1250***	(0.0408)	-0.3339***	(0.0489)	-0.3760***	(0.0438)
Inverse of Supply Elasticity	0.7675***	(0.2462)	0.8457***	(0.2675)	0.4502	(0.3279)
% Low-Doc × Inverse of Supply Elasticity	-1.3565***	(0.4557)	-1.4681***	(0.5123)	-0.5994	(0.6153)
% of Low-Doc that are W2 × Inverse of Supply Elasticity	-0.8130*	(0.4390)	-1.2087**	(0.4830)	-0.7849	(0.5408)
% Low-Doc × % of Low-Doc that are W2 × Inverse of Supply Elasticity	1.3385	(0.8223)	1.9908**	(0.9564)	1.1941	(1.1059)
Δ HPI (2000-2005) × Inverse of Supply Elasticity	0.0660	(0.0590)	0.1277*	(0.0685)	0.0956	(0.0620)
Δ Unemployment (2006 - 2007)	-0.1791	(0.1142)				
Δ Per Capita Income (2006 - 2007)	1.0537*	(0.5693)				
Δ Population (2006 - 2007)	3.1809***	(0.7471)				
Δ Unemployment (2006 - 2007) × Inverse of Supply Elasticity	0.0125	(0.1716)				
Δ Per Capita Income (2006 - 2007) × Inverse of Supply Elasticity	-0.7398	(1.0167)				
Δ Population (2006 - 2007) × Inverse of Supply Elasticity	-2.6778***	(0.9904)				
Δ Unemployment (2006 - 2008)			0.1337**	(0.0545)		
Δ Per Capita Income (2006 - 2008)			0.8239***	(0.2725)		
Δ Population (2006 - 2008)			2.2314***	(0.4425)		
Δ Unemployment (2006 - 2008) × Inverse of Supply Elasticity			-0.2281***	(0.0774)		
Δ Per Capita Income (2006 - 2008) × Inverse of Supply Elasticity			0.8966	(0.6883)		
Δ Population (2006 - 2008) × Inverse of Supply Elasticity			-2.2173***	(0.5536)		
Δ Unemployment (2006 - 2009)					0.0213	(0.0253)
Δ Per Capita Income (2006 - 2009)					0.8809***	(0.2874)
Δ Population (2006 - 2009)					1.5920***	(0.3803)
Δ Unemployment (2006 - 2009) × Inverse of Supply Elasticity					-0.0298	(0.0433)
Δ Per Capita Income (2006 - 2009) × Inverse of Supply Elasticity					0.6451	(0.6141)
Δ Population (2006 - 2009) × Inverse of Supply Elasticity					-1.1789**	(0.4951)
Constant	-0.1305	(0.0838)	-0.2441**	(0.0958)	-0.0593	(0.1289)
Observations	266		266		266	
Adjusted R-squared	0.48		0.75		0.79	

Note: This table reports the coefficient estimates from an OLS regression of house price changes on the share of low-doc loans and the proportion of low-doc loans to that are to W2 borrowers as defined by Equations ((15)) through ((16)). White's heteroskedasticity robust standard errors are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Table A10: Results from Figure 4 in Tabular Form

	Default	
Dependent Variable: Default	**M.E.**	**Std. Err.**
Marginal Effects of Low-Doc		
Self-Employed		
FICO = 520 (*Lowdoc*)	-0.0009	(0.0059)
FICO = 570 (*Lowdoc*)	0.0036	(0.0031)
FICO = 620 (*Lowdoc*)	0.0061***	(0.0020)
FICO = 670 (*Lowdoc*)	0.0070***	(0.0016)
FICO = 720 (*Lowdoc*)	0.0069***	(0.0016)
FICO = 750 (*Lowdoc*)	0.0062***	(0.0015)
W2		
FICO = 520 (*Lowdoc*)	0.0140****	(0.0025)
FICO = 570 (*Lowdoc*)	0.0135***	(0.0016)
FICO = 620 (*Lowdoc*)	0.0123***	(0.0012)
FICO = 670 (*Lowdoc*)	0.0107***	(0.0011)
FICO = 720 (*Lowdoc*)	0.0090***	(0.0011)
FICO = 750 (*Lowdoc*)	0.0073***	(0.0011)
Loan Characteristics	Yes	
Property Characteristics	Yes	
Borrower Characteristics	Yes	
Interest rate environment	Yes	
Area Characteristics	Yes	
Origination Year Fixed Effects	Yes	
N	449,917	

Note: This table presents marginal marginal effects of low-doc at different levels of FICO score by employment type. The marginal effects are derived from the probit model of mortgage default described in equation (12) for the funded loans from the New Century database. Heteroskedasticity-robust standard errors adjusted for clustering at the MSA level are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

References

Demyanyk, Yuliya, and Otto Van Hemert, 2011, Understanding the Subprime Mortgage Crisis, *Review of Financial Studies* 24, 1848–1880.