



Loan Origination Committee
July 18, 2006
11:00 am- 12:00 pm
Committee Conference Call Summary

Introduction

The purpose of the conference call was to discuss important Loan Origination Committee issues and provide in-depth background on market conditions impacting collateral quality. Karen Clark, President and CEO of AIR Worldwide Corporation, discussed the financial impacts of mega-catastrophes. MBA staff then reported on the Seismic Working Group and MISMO.

Financial Impacts of Mega-Catastrophes

For Karen Clark's presentation, Asset Administration Committee members were invited to join the call along with Loan Origination Committee Members. Her presentation examined the potential for mega-catastrophes and their financial impact. Mega-catastrophes result when intense hurricanes or large magnitude earthquakes occur in densely populated areas and can potentially have losses ranging from \$50 billion to \$300 billion. The presentation made by Karen is attached and the highlights of the presentation are summarized below:

- Every part of the US is exposed to natural disasters and catastrophic losses.
- Sever windstorms, including tornadoes, hailstorms, and winterstorms affect nearly every state and have an average annual loss of \$10 billion.
- Between 2001 and 2005 payments for natural disasters have increased exponentially.
- Driving the increase in catastrophic insurance payments are long-term land use and population growth patterns that have caused the number and value of properties along the gulf coast and eastern seaboard to rapidly increase. This pattern has put an increasing percentage of the US aggregate real estate value in coastal areas. In fact, 16 percent of the total value of US real estate is located in coastal counties.
- Currently, there is a 5 percent chance of a storm the magnitude of Katrina or greater occurring every year. However, when projected over time, this increases to 50 percent over a ten year period assuming no property value increase or increased number of properties.
- When factoring in the growth in the number and value of exposed properties over the next 10 years, there is a 20 percent probability of a \$100 billion or greater insurance property loss over the next 10 years.
- A seemingly remote .2 percent annual probability of a loss greater than \$200 billion translates to a 2 percent probability over the next 10 years and factoring in the growth in exposure this percentage increases to 6 percent over the next 10 years.



- The low take-up rate of flood insurance for residents of Special Flood Hazard areas, which are eligible to participate in the National Flood Insurance Program, creates the potential for flood events not to be insured. Low take-up rates for earthquake insurance create a similar situation for earthquakes.

Seismic Working Group

The Seismic Working group is making progress in completing its comments and edits for the E2026 seismic assessment practice guide and for the XA standard for loans that are intended to be securitized and for loans that may be held in portfolio. The MBA will submit its final comments in early August. The balloting process will take place at the Atlanta ASTM meeting in late October. The Seismic Working Group has been pleased that the ASTM has shown flexibility in addressing its comments.

MISMO

Over the past year, much progress has been made in developing MISMO. A recent development include working with the Appraisal Institute to create an appraisal report summary. In addition, MISMO is in the process of creating summary formats for other third party reports such as environment reports and property conditions reports.

Next Call

The next Loan Origination Conference Call is Tuesday, October 10, 11:00 a.m. - 12:00 p.m. EST.