

AVOIDING UNDERWRITING AND SECURITIZATION OF PREDATORY LOANS

WHEREAS _____ served as manager/underwriter for the securitization of subprime loans amounting to about \$20 billion or about 5% of the subprime loans that were securitized in 2004;

Whereas, if so-called predatory loans are included in the securitization of the underwriter, the underwriter may incur reputational risk. However the underwriter may also be deemed liable, especially if the underwriter also purchases the loans and is the owner of them for securitization. An example was Lehman Brothers, which had provided a credit line to and bundled the mortgages for the secondary market of First Alliance Corporation, which then went into bankruptcy. The federal court judgment against Lehman stated that Lehman "substantially assisted" First Alliance Corporation in perpetrating the alleged fraud, and held Lehman responsible for 10% of a \$50.9 million judgment;

Whereas a number of subprime lenders have been investigated by several federal and state authorities for alleged predatory lending practices in originating subprime loans. These predatory practices include:

- Credit life insurance being implied as necessary to obtain a loan (packing),
- Unnecessarily high fees,
- Loans refinanced with high additional fees rather than working out a loan that is in arrears (flipping),
- High pre-payment fees, with prepayment penalties applying for more than three years.
- Borrowers with inadequate income receiving loans, who will then default,
- Payment performances of borrowers not being reported to credit agencies;

Whereas some of these practices have led to large settlements:

- Household International settled with the attorneys general of 20 states to provide a \$484 million restitution fund in 2002,
- Citigroup made a similar settlement for \$215 million with Federal Trade Commission for the practices of Associates First Capital in 2002, and
- Ameriquest in July 2005 was in the process of a settlement with 30 states attorneys general for an estimated \$325 million;

Whereas, _____ has been both an underwriter of loans it purchased for securitizations as well as for loans owned by other corporations, including _____ and its subsidiary _____;

Whereas we believe that the securitization of subprime loans plays a very important and valid role to the provision of subprime lending, and we believe that subprime lending does serve a useful and legitimate purpose when done in a manner that discloses costs to consumers and potential risks to shareholders;

Whereas we believe that our corporation must perform adequate re-underwriting of the loans and verification of the originator's methods to be assured that loans with so called predatory practices are not included in any securitization that the company performs;

BE IT RESOLVED that the shareholders request the Board of Directors to develop policies that require management to develop operational procedures for more intensive screening of the loans, of their originators and of their servicers, so that the Corporation is not party to securitizations involving subprime loans that could lead to liability for the originator's or servicer's practices.