

SUBPRIME MORTGAGE LITIGATION

Building on decades of experience assessing financial and economic issues that arise in litigation involving mortgage lenders and other financial institutions, Cornerstone Research staff and experts have worked on a number of matters involving subprime mortgages. Subprime mortgage litigation has had several areas of focus, including mortgage loan origination, securitization and other financing activities for mortgage originators, and investments in mortgage-backed assets. Our firm's "partnership" of more than 400 full-time staff professionals with leading academic and industry experts gives us the basis to address issues in finance, real estate economics, and accounting that arise in subprime matters.

Mortgage Loan Origination

Some financial intermediaries have focused much of their business activity on subprime lending. Others have made subprime loans in the context of more varied mortgage lending businesses or as part of more diverse financing activities. With interest rates at historic lows, residential real estate investment grew from 1990–2005. Subprime lending enabled less creditworthy borrowers to finance their homes.

In light of heightened subprime lending activity and rising interest rates, defaults have increased. This increased default rate has prompted a variety of consumer and other actions against mortgage lenders:

- Consumers have accused mortgage lenders of improper actions in providing debt to less creditworthy borrowers; alleged that some originators may have misled borrowers about the terms of borrowing commitments; and claimed that some lenders may have discriminated against borrowers by focusing subprime lending activities on certain segments of the population.
- Investors have also brought claims against originators and their professional advisors, claiming to have been misled about the risk and performance of subprime lending businesses.
- In bankruptcy matters, the issues of focus in consumer and investor actions have become the basis for claims about the causes of diminished value of mortgage lenders.

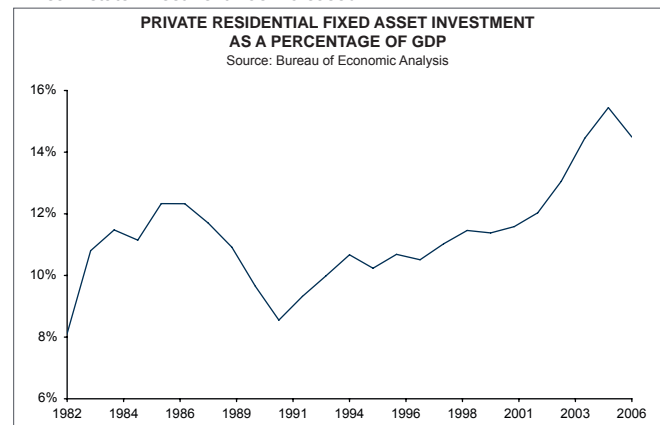
All of these cases raise a number of financial, economic, and accounting issues:

- We have assessed questions of class certification in many investor and consumer actions, including the typicality of borrowers, loan terms, and loan portfolio performance.
- We have also analyzed mortgage lenders' risk and performance, the degree to which this information had been accounted for and disclosed, and the impact of various factors on firm value or asset value.

During a Period of Low Interest Rates...

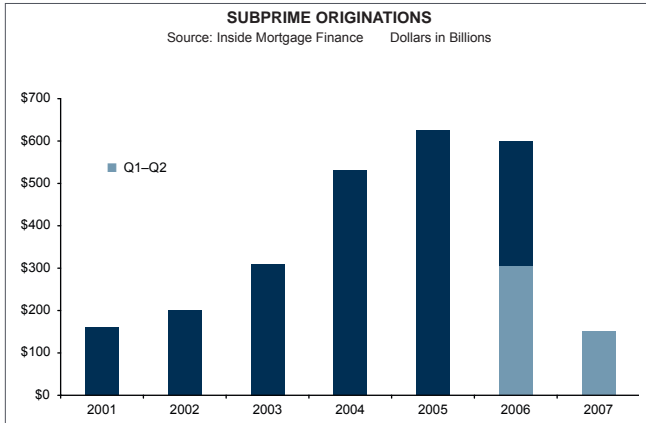


...Real Estate Investment Has Increased

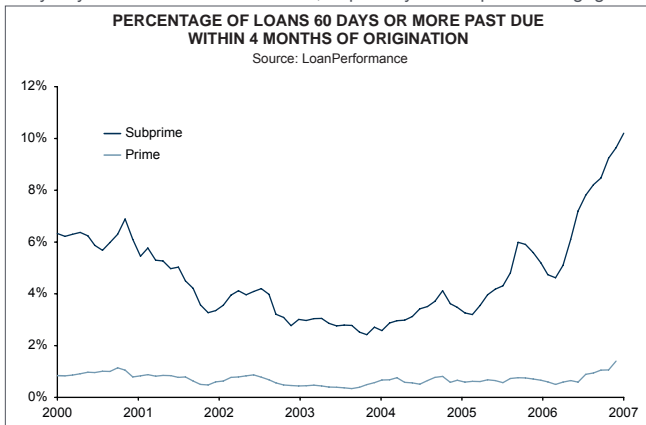


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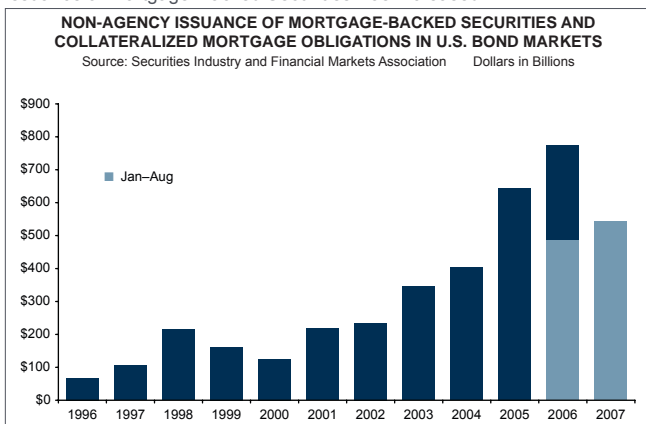
Subprime Mortgage Lending Has Increased



Early Payment Default Is on the Rise, Especially for Subprime Mortgages



Issuance of Mortgage-Backed Securities Has Increased



Securitization and Other Financing

Mortgage lenders frequently fund their businesses by removing loan assets from their balance sheets through the process of securitization—the bundling of loans into pools from which new securities can be derived. Investment banks often structure and place these mortgage-backed securities. Mortgage lenders may retain a partial (or residual) stake in the loan pools, and will often generate fees through ongoing loan servicing. In addition to securitization, investment banks lend to mortgage originators to supplement their cash flow as they originate more loans.

As these financing activities have grown and as subprime loans have comprised an increasing share of mortgage pools, mortgage loan originators, investment banks, their auditors, and other participants in the securitization process have faced litigation:

- Consumer, investor, and bankruptcy actions have alleged that those providing financing to mortgage lenders have been complicit in alleged improper actions by the originators.
- Mortgage-backed securities have also been the focus of litigation, with allegations involving the structure of those securities (such as the nature of loans included in a pool and how the risk of a particular stake or tranche in the pool was assessed) and their valuation.

For a number of reasons, it can be challenging to value mortgage-backed securities:

- These instruments often trade infrequently and privately, and it can be difficult to observe a market price.
- The potential illiquidity of a particular instrument at a given time can have an impact on its value.
- The value of mortgage-backed securities varies with the credit risk, interest rate sensitivity, and optionality of the underlying loans (such as the borrowers' options to prepay when interest rates decline) and of the tranches created from loan pools.

Cornerstone Research experts and staff have worked extensively on the analysis and valuation of structured debt instruments and mortgage-backed securities, analyzing the risks and value of underlying securities, the parameters and ratings of specific tranches, and the degree to which those factors were properly accounted for and disclosed. We are familiar with the market dynamics, information sources, and derivatives pricing methods relevant to valuing these instruments.

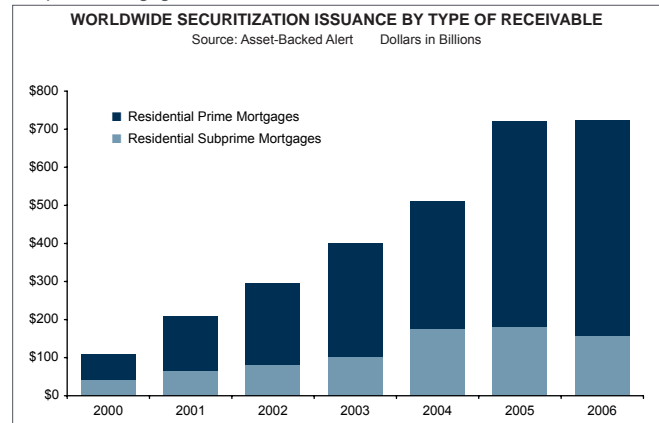
Investing in Mortgage-Backed Assets

With the rise of subprime lending and the ensuing securitization, many institutions have increased their investments in mortgage-backed securities. These investments have taken the form of stakes in loan pools, tranches of securities derived from those pools, and pieces of collateralized debt obligations (CDOs) with underlying mortgage assets. Over the past decade, CDOs have provided a growing means to package mortgages and other debt to create new investment opportunities. Investors may perceive advantages in the diversification afforded by pooling debt instruments to create CDOs. The structuring of CDOs into risk-based tranches has allowed investors to target their exposure.

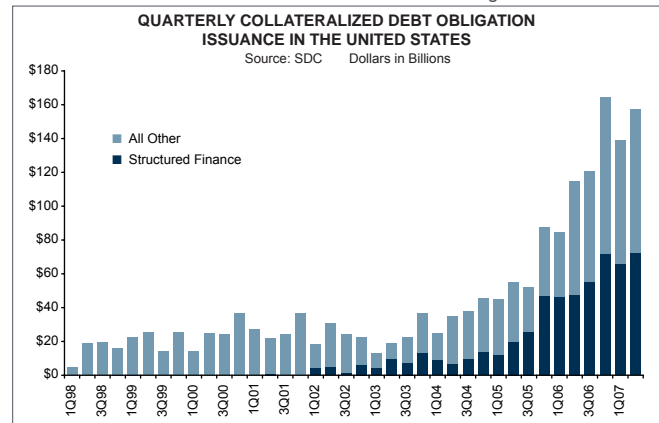
As with mortgage-backed securities, the structuring, risk assessment, and valuation of CDOs can be somewhat complex. CDO investments also tend to trade infrequently, leading to issues of price transparency and liquidity. Litigation arises between investors in mortgage-backed assets and those who are involved in originating, structuring, placing, and evaluating those assets. Claims have also arisen regarding the underlying asset composition, risk profile, and valuation of these investments; the degree of disclosure associated with such issues; and the suitability of CDOs for different buyers.

We have worked extensively to analyze the structuring, risk, and value of CDO tranches and other mortgage investments. We have assessed the value of such investments in the portfolios of hedge funds and other investors, their investment strategies and risk management practices, and the value of those investment entities.

Subprime Mortgage Securitization Has Grown



The Growth in Mortgage-Backed Securities Has Contributed to the Rise of Structured Finance Collateral in Collateralized Debt Obligations



Selected Client Law Firms

Akin Gump Strauss Hauer & Feld	Drinker Biddle & Reath	Kirkpatrick & Lockhart Preston Gates Ellis	Richards, Layton & Finger
Alston & Bird	Farella Braun + Martel	Latham & Watkins	Robins, Kaplan, Miller & Ciresi
Arnold & Porter	Fenwick & West	Manatt, Phelps & Phillips	Schulte Roth & Zabel
Axinn, Veltrop & Harkrider	Finnegan, Henderson, Farabow, Garrett & Dunner	Mayer Brown	Shartsis Friese
Baker Botts	Folger Levin & Kahn	McDermott Will & Emery	Shearman & Sterling
Baker & Hostetler	Fried, Frank, Harris, Shriver & Jacobson	McKenna Long & Aldridge	Sheppard, Mullin, Richter & Hampton
Baker & McKenzie	Fulbright & Jaworski	Milbank, Tweed, Hadley & McCloy	Sidley Austin
Bartlit Beck Herman Palenchar & Scott	Gibson, Dunn & Crutcher	Mintz Levin Cohn Ferris Glovsky and Popeo	Simpson Thacher & Bartlett
Bingham McCutchen	Goodwin Procter	Mitchell Silberberg & Knupp	Skadden, Arps, Slate, Meagher & Flom
Boies, Schiller & Flexner	Harkins Cunningham	Montgomery, McCracken, Walker & Rhoads	Snell & Wilmer
Cadwalader, Wickersham & Taft	Haynes and Boone	Morgan, Lewis & Bockius	Sonnenschein Nath & Rosenthal
Cahill Gordon & Reindel	Heller Ehrman	Morris, Nichols, Arsht & Tunnell	Stroock & Stroock & Lavan
Chadbourne & Parke	Hogan & Hartson	Morrison & Foerster	Sullivan & Cromwell
Choate, Hall & Stewart	Holland & Hart	Munger, Tolles & Olson	Thompson & Knight
Cleary Gottlieb Steen & Hamilton	Howrey	O'Melveny & Myers	Vinson & Elkins
Clifford Chance	Hunton & Williams	Orrick, Herrington & Sutcliffe	Vorys, Sater, Seymour and Pease
Cooley Godward Kronish	Husch & Eppenberger	Patton Boggs	Wachtell, Lipton, Rosen & Katz
Covington & Burling	Irell & Manella	Paul, Hastings, Janofsky & Walker	Weil, Gotshal & Manges
Cravath, Swaine & Moore	Jenner & Block	Paul, Weiss, Rifkind, Wharton & Garrison	Weston Benshoof Rochefort Rubalcava MacCush
Davis Polk & Wardwell	Jones Day	Pepper Hamilton	Wiley Rein
Debevoise & Plimpton	Katten Muchin Rosenman	Perkins Coie	Williams & Connolly
Dechert	Kaye Scholer	Pillsbury Winthrop Shaw Pittman	Willkie Farr & Gallagher
Dewey & LeBoeuf	Kelley Drye & Warren	Powell Goldstein	Wilmer Cutler Pickering Hale and Dorr
Dickstein Shapiro	Kilpatrick Stockton	Proskauer Rose	Wilson Sonsini Goodrich & Rosati
DLA Piper	King & Spalding	Quinn Emanuel Urquhart Oliver & Hedges	Winston & Strawn
Dorsey & Whitney	Kirkland & Ellis	Reed Smith	

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