Conseco Manufactured Housing Business
Data Gaps Lessons Learned

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Lessons in 20/20 Hindsight

- Limited investment to learn the business
- Entered as investor rather than secondary market player
- Overly relied on rating agency
- Compelling driver: goals rich business
- Incomplete knowledge is a given = risk
Breakdown All Counter Parties with respect to their role and understand the business model of each

- **Issuer ("Originator")**
  - Loosened credit standards attracted lower quality borrower
  - Eased loan terms created a mismatch between loan term and asset depreciation

- **Servicer**
  - Understand compensation structure and if it makes economic sense
  - Conseco’s 50 bps servicing fee was in a subordinate position, thus they ended up getting about 12 bps (not enough to cover costs)

- **Trustee**
  - No clear legal rights

- **Bond Issuer**
  - Relied principally on rating agency

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**MB Asset Residual Value vs. Loan Principal Remaining**

- Don’t limit perspective to just the business partner with whom we will deal
- Good partners do not abdicate responsibility to understand the business
- Determine how will each perform in up and down markets and plan accordingly
Size Risk/Exposure for Each Party

- High level of concentration in our business and the industry overall was a warning light
  - The top 10 originators in MH accounted for 94% of the industry volume
  - In 2000, Conseco had a 54% market share of manufactured housing originations
  - As of 10/31/02, Conseco Finance securities comprise 70% of our current manufactured housing balances
  - The percentage of each Conseco issue purchased by Fannie Mae increased from an average of 18% on 94/95 issues to 50% on 99/00 issues

- Assess and manage level of concentration
  - How much of our business is concentrated across few to one players
  - How concentrated is the industry
  - Have policies that set concentration limits or incentives for diversification (<$ = follow simple guidelines; >$ = go level deeper)
Develop and Utilize Multiple Early Indicators

- We relied completely on one reference point, the rating agencies
  - Rating agency model slow to change rating; not sufficiently dynamic
  - Insulated from understanding the business
- Other indicators could have given us a heads up
  - Financial leverage of Conseco Inc and Conseco Finance increased steadily from 4Q96
  - Conseco stock price declined steadily from 1Q98
  - Most other players left the market
    - Company (exit date)
    - Greenpoint (1/02)
    - FirstMerit (10/01)
    - Bombardier (9/01)
    - Associates (1/00)
    - Deutsch Bank (11/99)
    - United Cos (10/98)
    - IndyMac (3Q 98)
    - Bank of America (9/98)
Have an Exit Strategy

- Servicing Strategy
  - Tier requirements
  - Track against them
- Goal can’t be zero loss
  - We’re in the risk taking business
- Unrealistic to be able to forecast everything and to always get it right
  - Tripwires to get out
- Clarity of who at Fannie Mae owns the business
- If our partner fails, how does the risk get handled
- Legal rights