

LOAN GUIDELINES

Asset/Liability Management Service March-10

Basic Loan Pricing Mechanics for Direct Lending

Price off constant maturity Treasury (CMT) yield curve based on loan's effective duration.

Loan Rate = CMT yield to maturity (YTM) plus net, servicing, and credit spreads.

Constant Maturity Treasuries		
CMTs	Effective Durations	YTM's on 2/26/10
.25 yr.	0.25%	0.11%
1.0 yr.	0.94%	0.29%
2.0 yr.	1.82%	0.81%
2.5 yr.	2.23%	1.07%
3.0 yr.	2.62%	1.33%
4.0 yr.	3.38%	1.82%
5.0 yr.	4.07%	2.30%
6.0 yr.	4.72%	2.68%
7.0 yr.	5.31%	3.05%
8.0 yr.	5.86%	3.23%
9.0 yr.	6.38%	3.42%
10.0 yr.	6.85%	3.61%

Source: www.federalreserve.gov/releases/H15/update/

26-Feb-10 Loan Types	+300bp Prepayment ABS/CPR	+300bp Effective Durations	Matched Duration CMTs	Net Spreads (ROA)	Servicing Spreads	"A" Paper Credit Spreads	Total Spreads	Guideline Rates on 2/26/10
48-mo. New/Used Autos	1% ABS	1.47%	1.5 yr	2.38%	0.75%	0.25%	3.38%	3.93%
60-mo. New/Used Autos	1% ABS	1.69%	2.0 yr	2.38%	0.75%	0.25%	3.38%	4.19%
72-mo. New/Used Autos	1% ABS	1.88%	2.5 yr	2.38%	0.75%	0.25%	3.38%	4.45%
1-year 1st RE ARMs	7% CPR	0.95%	1.0 yr	3.00%	0.50%	0.25%	3.75%	4.04%
3/1 1st RE ARMs/Balloons	7% CPR	2.47%	3.0 yr	2.13%	0.50%	0.25%	2.88%	4.21%
5/1 1st RE ARMs/ Balloons	7% CPR	3.56%	4.0 yr	1.75%	0.50%	0.25%	2.50%	4.32%
7/1 1st RE ARMs/Balloons	7% CPR	4.33%	5.0 yr	1.38%	0.50%	0.25%	2.13%	4.43%
15-yr. Fixed 1st Mortgages	7% CPR	4.52%	6.0 yr	1.25%	0.38%	0.25%	1.88%	4.55%
30-yr. Fixed 1st Mortgages	7% CPR	5.80%	10.0 yr	0.88%	0.38%	0.25%	1.51%	5.12%
5-yr. Fixed 2nd-Lien HELs	7% CPR	2.15%	2.5 yr	2.50%	1.00%	2.75%	6.25%	7.32%
10-yr. Fixed 2nd-Lien HELs	7% CPR	3.52%	4.0 yr	2.25%	1.00%	2.75%	6.00%	7.82%
15-yr. Fixed 2nd-Lien HELs	7% CPR	4.40%	6.0 yr	1.75%	1.00%	2.75%	5.50%	8.18%
Variable-Rate HELOCs	7% CPR	0.25%	.25 yr	1.38%	1.25%	2.75%	5.38%	5.49%

- Notes:
1. Net loan spreads on indirect auto loans may be 50bp to 75bp lower than on direct loans after dealer reserves & fees.
 2. Investment spreads on bank CDs and agency callables were 40bp to 60bp over Treasury CMT yields to maturity (YTMs) on 2/26/10
 3. Approximate credit spreads: A (FICO 700+) 25bp; B (FICO 660-699) 125bp; C (FICO 620-659) 325bp; D (FICO 580-619) 600bp.
 4. ARMs/balloons based on 360-month amortization and all 1st-mortgages assume either LTVs no greater than 80% or PMI.
 5. Increase credit spreads 25bp to 50bp on all 1st mortgages that have LTVs over 80% w/o PMI.
 6. Credit spreads were increased from 25bp to 275bp on "A" paper fixed 2nd-lien HELs and VR HELOCs.
 7. Increase credit spreads an additional 25bp to 50bp on all fixed 2nd-lien HELs and VR HELOCs that have aggregate LTVs over 80%.
 - * 8. Advise not portfolioing new 15-yr. and 30-yr. fixed-rate 1st mortgages when rates are below 5.25% and 5.50%, respectively.

Source: Southwest Corporate Investment Services, Charles R. Idol

For more information regarding asset liability management, please email us at:

alm@swcorp.org

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Loan Loss and Credit Spreads Estimates

Narrow FICO Ranges

FICO Score Ranges	Credit Ratings	Life-of-Loan Default Rates	Estimated Loss Factors	Est. Loan Losses (NCOs)	Maximum LTVs
720+	A+	1.5%	10%	0.15%	105%
700-719	A	2.5%	15%	0.38%	105%
680-699	B+	5.0%	20%	1.00%	100%
660-679	B	7.0%	20%	1.40%	100%
640-659	C+	10.0%	25%	2.50%	95%
620-639	C	15.0%	25%	3.75%	95%
600-619	D+	18.0%	30%	5.40%	90%
580-599	D	21.0%	30%	6.30%	90%
560-579	E+	25.0%	35%	8.75%	85%
540-559	E	30.0%	35%	10.50%	85%
540 <	Subprime	45.0%	40%	18.00%	75%

Refer: NCUA Risk Alert # 05-RISK-01 and LTCU # 04-CU-13

Wide FICO Ranges

FICO Score Ranges	Credit Ratings	Life-of-Loan Default Rates	Estimated Loss Factors	Est. Loan Losses (NCOs)	Maximum LTVs
700+	A	2.0%	12.5%	0.25%	105%
660-699	B	6.0%	20.0%	1.20%	100%
620-659	C	12.5%	25.0%	3.13%	95%
580-619	D	19.5%	30.0%	5.85%	90%
540-579	E	27.5%	35.0%	9.63%	85%
540 <	Subprime	45.0%	40.0%	18.00%	75%

Risk-Based Pricing Guidelines for 60 mo. Direct Auto Loans

Narrow FICO Ranges

Pricing Spreads			Total Spreads	2.0 Year CMT on 2/26/10	60 mo. Auto Loan Rates
Credit	Servicing	Net ROA			
0.15%	0.75%	2.38%	3.28%	0.81%	4.09%
0.38%	0.75%	2.38%	3.51%	0.81%	4.32%
1.00%	1.00%	2.38%	4.38%	0.81%	5.19%
1.50%	1.00%	2.38%	4.88%	0.81%	5.69%
2.50%	1.25%	2.38%	6.13%	0.81%	6.94%
3.75%	1.25%	2.38%	7.38%	0.81%	8.19%
5.50%	1.50%	2.38%	9.38%	0.81%	10.19%
6.25%	1.50%	2.38%	10.13%	0.81%	10.94%
8.75%	1.75%	2.38%	12.88%	0.81%	13.69%
10.50%	1.75%	2.38%	14.63%	0.81%	15.44%
18.00%	2.00%	2.38%	22.38%	0.81%	>18%

Note: Net loan spreads on indirect auto loans may be 25bp to 75bp less than on direct loans after upfront fees and dealer reserves.

Wide FICO Ranges

Pricing Spreads			Total Spreads	2.0 Year CMT on 2/26/10	60 mo. Auto Loan Rates
Credit	Servicing	Net ROA			
0.25%	0.75%	2.38%	3.38%	0.81%	4.19%
1.25%	1.00%	2.38%	4.63%	0.81%	5.44%
3.25%	1.25%	2.38%	6.88%	0.81%	7.69%
6.00%	1.50%	2.38%	9.88%	0.81%	10.69%
9.75%	1.75%	2.38%	13.88%	0.81%	14.69%
18.00%	2.00%	2.38%	22.38%	0.81%	>18%

Note: Higher servicing costs were applied to lower grades of paper.

Source: Southwest Corporate Investment Services, Charles R. Idol

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