

## ADAPA™ LM Predictive Loss Mitigation Strategy

The ADAPA™ Loss Mitigation (LM) solution employs a proactive approach to Quality Control for nonprime mortgage applications.

ADAPA™ LM identifies high risk loans which are most likely to incur a loss upon sale in the Secondary Market and flags them for additional review by your Quality Control (QC) department. Our solution allows you to minimize unprofitable transactions by focusing your quality assurance efforts on the right loans at the right time.

Loans are flagged during the underwriting process and forwarded for additional review by senior personnel which ensures quality and the option to redraft transactions which otherwise may result in a negative return.

## Maximizing Quality and Minimizing Losses

The landscape for alternative mortgage products is shifting rapidly. In order to remain competitive, lenders are being forced to leverage technology to minimize their cost of origination. As interest rates rise and profit margins remain under pressure, it becomes imperative to originate high quality loans which realize an attractive return upon sale in the Secondary Market and to eliminate any loans that can only be sold at a trade value below the cost to originate.

The ADAPA™ (Adaptive Decision And Predictive Analytics) framework of intelligent risk management solutions provide the mortgage industry with the right tools to:

- Tightly Control Quality
- Significantly Reduce Losses

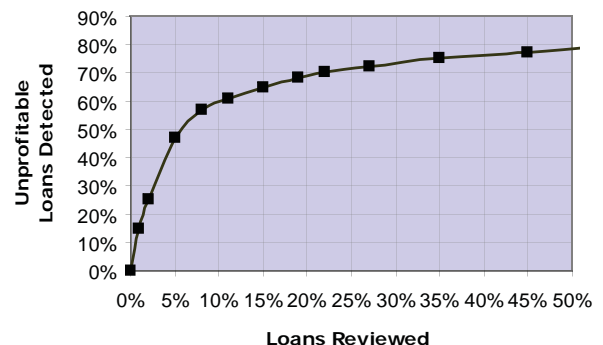
Our proactive Loss Mitigation solution uses predictive analytics to assign a risk score to every single loan passing through your origination pipeline. The higher the score a loan receives, the higher the probability that such a loan will generate a loss when sold to investors in the Secondary Market. ADAPA™ LM achieves such a feat by learning from your own data which loans had the lowest trade values. It then is able to predict which loans currently in your pipeline are likely to sell for a loss unless the characteristics of the transaction are modified.

Once you choose a cut-off score which maximizes your Quality Control effectiveness, our solution is able to flag loans which score above such a cut-off. Your QC process then determines how these transactions are to be treated within your organization. A cut-off score is typically chosen based on the odds (goods to bads) ratio obtained at a particular score which will influence how many loans are to be queued for quality assurance review.

## Instant Results through Cost-effective Deployment

Typically, only a small percentage of your loans are sold at a loss. The penalties incurred by even a small population of your loans, however, can amount to millions of dollars of actual losses and forgone profit opportunity.

Augmenting your existing Quality Control efforts, the Zementis Loss Mitigation solution allows you to minimize bad transactions by flagging over 50% of the loans that would otherwise be destined to be sold at a loss. In the graph below, which represents a typical scenario, we can see that ADAPA™ LM is able to identify approximately 50% of the unprofitable loans, while flagging for review only 5% of all loans.



Loans can be scored by ADAPA™ LM in real-time or in batch mode. Initially, lenders often choose to deploy the Zementis Loss Mitigation solution in batch mode which allows for a fast implementation, a low total cost of ownership, and minimal impact to your organization. Loans can be scored nightly for which ADAPA™ generates customized reports containing all loans rank ordered by their respective Loss Mitigation risk score.