



Milliman RMBS Valuation Services

Independent and Transparent Mortgage-backed Security Valuations



WHY SHOULD YOU HIRE AN INDEPENDENT EXPERT TO VALUE YOUR RESIDENTIAL MORTGAGE-BACKED SECURITIES?

Insurance companies, banks, pension funds, and asset managers hold billions of dollars of residential mortgage-backed securities (RMBSs), yet have a hard time placing a value on what they are truly worth. The illiquidity and complexity of RMBSs can reduce financial reporting to frustrating guesswork. Yet you can get a much more accurate idea of the intrinsic value of your securities with Milliman's RMBS valuation service, a uniquely positioned product that helps investors comply with new financial reporting requirements and provides immediate benefits over your competition.

BENEFITS OF THE MILLIMAN VALUATION MODEL

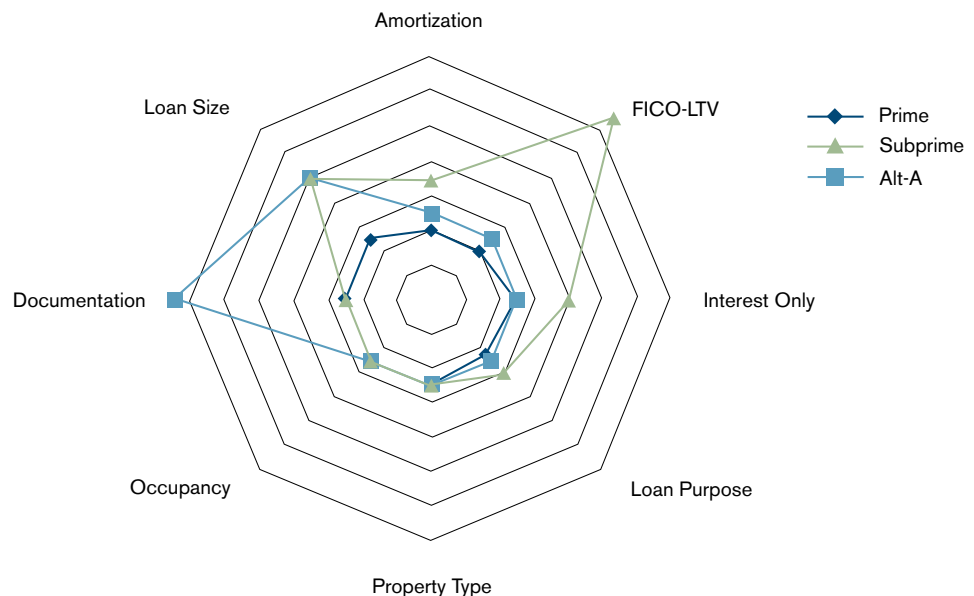
What makes Milliman RMBS valuation services so valuable?

- **Improve decision making.** Knowing the intrinsic value of a security helps executives

determine whether to hold them on the balance sheet or to pursue trading opportunities.

- **Calculate impact on surplus and capital.** Changes in the value of assets can have unanticipated effects; knowing how they affect surplus position and economic and risked-based capital calculations will provide an immediate competitive advantage to your company.
- **Improve transparency.** By improving transparency, the company may be in a better position to access financial markets.
- **Keep up with compliance.** Accounting rules require companies to split credit and non-credit impairments of debt securities. An intrinsic valuation of RMBSs can provide the detail necessary for this allocation.
- **Reduce overhead.** Milliman's expertise helps companies avoid the onerous task of acquiring or developing in-house expertise.

Figure 1: Illustrative propensity to default by loan characteristics



Milliman distinguishes itself by offering the following:

- **Independent valuation.** Holders of RMBSs all too often obtain estimates from an investment bank or broker, which also buys or sells the securities. Milliman’s independence prevents this potential conflict of interest.
- **Transparent solution.** Accounting rules require extensive documentation on how an asset holder obtains values for the credit and noncredit impairments of the security. While broker dealers may be reluctant to show their model, Milliman provides you with key methods and assumptions that were used for the intrinsic valuation.
- **Credit focus.** We have centered our practice on mortgage credit analysis since the early 1990s. Other providers have concentrated on prepayment risks and have placed little emphasis on credit risk modeling.

financial health. Available data in the loan pool—along with economic considerations—can go a long way to estimating the frequency and severity of default of the underlying collateral. With our model, the following data groups help determine overall value of a security:

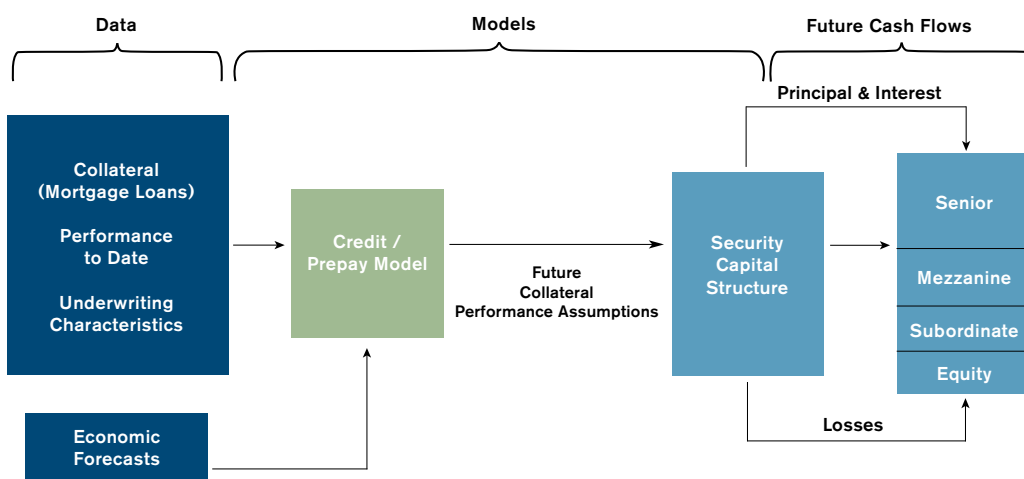
- **Performance to date.** Collateral persistency, loss, and delinquencies help gauge performance thus far for the collateral and can be used to estimate future performance.
- **Underwriting characteristics.** The model uses characteristics of the loan, borrower, and property to quantify credit performance. (Figure 1 depicts relative risk of default as distance from the center of the radar graph.)
- **Economic forecasts.** The model leverages explicit economic forecasts to capture external risk in the market.

MILLIMAN’S RMBS VALUATION MODEL

By measuring the intrinsic value on the asset side of the balance sheet, management will be in a better position to understand its company’s

By feeding assumptions of future collateral performance into a security capital structure program (see Figure 2), the asset holder can determine the impact of projected future cash flows. The cash flows can then be discounted to obtain a net present value of the security.

Figure 2: Flowchart of Valuation Process



We can help you achieve intrinsic valuations of your mortgage-backed securities.

Contact us to see how we can provide independent and transparent values of RMBSs on your balance sheet.

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Milliman, whose corporate offices are in Seattle, serves the full spectrum of business, financial, government, and union organizations. Founded in 1947 as Milliman & Robertson, the company has 49 offices in principal cities in the United States and worldwide. Milliman employs more than 2,100 people, including a professional staff of more than 1,100 qualified consultants and actuaries. The firm has consulting practices in employee benefits, healthcare, life insurance/financial services, and property and casualty insurance. Milliman's employee benefits practice is a member of Abelica Global, an international organization of independent consulting firms serving clients around the globe. For further information visit milliman.com.