

## CREDIT & LIQUIDITY DUE DILLIGENCE DOCUMENT

Please complete all questions using additional pages if required to fully articulate your answers.

**Insured Entity:**

**Principal Address:**

### A. Sub-Prime Mortgage Activities:

1. Does the entity originate or acquire sub-prime products?  YES  NO

If "Yes", please answer the following:

- a) What is the current value of these loans, and what proportion of the total loan portfolio do they represent?
- b) What was the total value of these loans in each of the last two completed financial years, and what proportion of those loan portfolios' did they represent?
- c) What is the value of the interest revenue generated from these loans in the current year to date, and what proportion of total revenue generated in the current year does this represent?
- d) What proportion of these sub-prime mortgage loans are made to fund property purchase in the USA?

2. Does the Entity securitize the sub-prime assets or retain them for investment purposes?

YES  NO

If "Yes", please answer the following:

- a) What is the average amount of equity the entity retains in its securitizations?
- b) Does the entity utilize financial guarantee insurance in conjunction with its securitizations?
- c) If "Yes", is an entire securitization insured or just certain tranches? and,
- d) Which insurers are used and what are their current security ratings?

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- e) Does the Entity arrange its own securitizations or utilise the services of an Investment Bank(s)? If the latter, are you obliged to provide them with indemnities that restrict their potential liability?
- f) In the past 12 months, how many loans has the entity been required to repurchase from, or indemnify, Secondary Market Investors? What is the aggregate monetary value of these loans/indemnities?
3. What proportion of the entity's sub-prime mortgage loans are agency backed, as opposed to non-agency backed?
4. Please provide a breakdown of the entity's current mortgage portfolio in the following classifications:-
- |                    |   |        |
|--------------------|---|--------|
| i. LTV > 100%      | - | .....% |
| ii. LTV > 95%      | - | .....% |
| iii. Option ARM    | - | .....% |
| iv. ARM            | - | .....% |
| v. Alt-A           | - | .....% |
| vi. Fixed rate     | - | .....% |
| vii. Interest only | - | .....% |
| viii. Reverse      | - | .....% |
5. What is the average LTV in the entity's mortgage loan portfolio?
6. What is the average value of an individual loan in the entity's residential mortgage portfolio?
7. How many mortgage loans have been foreclosed, and what was their aggregate monetary value, in each of the following periods:
- a) The past 12 months:
- b) The previous year:
- c) Two years ago:
8. Please provide a brief description of the process the entity follows between the point at which a mortgage payment is late until foreclosure.
9. Do you consider it necessary to obtain documentary information to demonstrate the suitability of a sub-prime product?

YES  NO

If "Yes":-

a) Is this information recorded?  YES  NO

b) Does this information include:-

i) The customers credit history?  YES  NO

ii) The customers debt position?  YES  NO

iii) Details of the customers existing mortgage arrangements?

YES  NO

iv) Income and expenditure information to assess affordability?

YES  NO

When were the procedures detailed above first introduced?

10. Has it been, and is it, your standard practice to issue a letter to a customer outlining the reasons for your recommendation and the reasons why the loan you offer is suitable for them?

YES  NO

11. Please describe any other procedures utilised by the entity to mitigate your exposure to allegations of mis-selling?

## **B. Funding/Liquidity:**

1. Where lending activity is not funded by customer deposits, please identify the nature, value and source of supplementary funding utilised:

2. Do any of the entity's funding sources contain call, reset, or "mark to market" provisions?

YES  NO

If "Yes" then please provide a brief explanatory narrative:

3. Have any funding covenants been breached in the last 12 months?

YES  NO

If "Yes", then please provide full details by attachment.

4. Has the entity had to liquidate any investments for working capital purposes or to meet financial obligations in the last 12 months?

5. a) Does the entity provide any services to Conduits, SPV's, S.I.V's, or any other off-Balance Sheet vehicles used for investment or securitization purposes?

YES  NO

If "Yes" then by attachment, please provide as much information as is available as regards the nature of the advice/service, any limitation of your liability via contract, and transaction numbers and values.

- b) Does the entity have any legal obligation to provide liquidity funding to any of the vehicles detailed above?

YES  NO

If "Yes" then please provide full details by attachment.

- c) Does the entity have any legal obligation to take any of the vehicles detailed above onto its own Balance Sheet in any circumstances?

YES  NO

If "Yes" then please provide full details by attachment.

### **C. Investment Portfolio/Fund Management:**

1. Does the Entity invest any of its own assets in RMBS, CDOs, ABSs?

YES  NO

If "yes", please identify the amounts invested in each type of instrument:

2. Please describe the process followed to calculate the value of these instruments?

3. How regularly are these instruments re-valued?

4. Is an independent third party used to verify the values every time?

5. Does the entity provide any fund/investment management or administration services to its clients

YES  NO

If "Yes", does the entity invest any of its clients assets in RMBS, CDO or ABS instruments?

YES  NO

If "Yes", does the entity provide any type of disclosure letter, or make any specific statement to clients advising them of these types of investments in their portfolio other than the "Risk Factors" disclosed in a fund offering document?

YES  NO

If "Yes" then please provide full details by attachment.

6. Do any of the funds the entity has responsibility for contain variable "lock-up" period for redemption?

YES  NO

If "Yes", please explain the process for valuation and equitable redemption between investors.

7. Do any funds the entity is responsible for contain redemption gates?

YES  NO

If "Yes", please explain how you manage the tension between an investor's right to redeem his investment and the gate being triggered?

8. Has the Entity liquidated any funds, frozen any funds, or suspended redemptions on any funds?

YES  NO

If "Yes" then please provide brief details:

## **E. Claims/Circumstances:**

1. Have there been or are there now pending, any claim(s), suit(s) or action(s) (including but not limited to any investigation) against any person or Entity proposed for insurance under the proposed policy in connection with any sub-prime products, practices or activities or relating to the ensuing credit crisis and/or liquidity issues?

YES  NO

If "Yes" then please attach full details.

2. Does any person or Entity proposed for insurance under the proposed policy have knowledge or information of any act, error or omission which might give rise to any claim(s), suit(s) or action(s) under the proposed policy in connection with any sub-prime products, practices or activities or relating to the ensuing credit crisis and/or liquidity issues?

YES  NO

If "Yes" then please attach full details.

**WE HEREBY DECLARE THAT the above statements and particulars are true and complete to the best of our knowledge and that we have not suppressed or misstated any material facts and we agree that this application shall be the basis of any contract subsequently effected between the Proposer and the Underwriters.**

Date

Signature

(Director)

**Signing this Proposal Form does not bind the Proposer to complete this insurance.**