

# **EXHIBIT E**

## **NERA's Proposed Method for Computing Actual Losses and Expected Future Losses for the Countrywide Securitization Trusts**

This note describes NERA's method for computing the past and expected future losses for the mortgage loans used as collateral for the identified Countrywide securitization trusts ("CW RMBS"). We understand that the proposed settlement involves 530 trusts in vintages from 2004 to 2008 and includes prime, Alt-A, and subprime loans. There are over 1.6 million individual first- and second-lien loans in the 530 trusts. We also understand that the settlement agreement defines the "Net Loss Percentage" for each CW RMBS Trust to be the past and expected future losses for that trust as a percentage of the sum of the net past and expected future losses for all 530 trusts. We will report the estimates by loan group and trust, and if applicable and if the data are available, we will also report the estimates for the loans related to the principal-only certificates or notes.

### **I. The Past Losses**

Per the Settlement Agreement, we propose to calculate past losses for each CW RMBS trust that have accrued from the closing date through the most recent reporting date.

### **II. Expected Future Losses**

The estimation of expected future losses for each of Countrywide's securitization trusts requires the use of loan-level models to assess the performance of the mortgage collateral underlying each trust.

In order to project expected future losses, NERA will simulate the possible paths that a given loan will follow through time, conditional on its characteristics and economic conditions. First, we will estimate probability of default for each loan using an econometric hazard model,<sup>1</sup> and will also account for various states to which a loan can transition (such as prepayment, modification, and varying delinquency status, *i.e.*, has the loan ever been delinquent or delinquent

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<sup>1</sup> This approach can produce estimates of conditional probability that a loan transitions to a different state (such as default, prepayment, 60+ days delinquent, etc), given that the loan has survived up until a given point in time. (A *hazard* function indicates the probability of defaulting (or transitioning to another state) at any given time conditional on surviving (or staying in a given state) up to that time.)

in a pre-specified previous period), and the duration of time in each state. In our model, we will also control for aging of a loan and for characteristics of the borrowers and the mortgage loans.

Our statistical model will also take into account the following:

- a. **Static variables**, e.g., product (e.g., ARM vs. Fixed), product detail (15- or 30-year, interest-only, negative amortization, etc.), loan vintage and size, FICO, documentation, occupancy, loan purpose, lien, property type, loan to value (LTV), SATO (spread-at-origination), and geography.
- b. **Macroeconomic and environmental variables**, e.g., geography-specific housing price appreciation (HPA), relevant state characteristics (such as judicial vs. non-judicial foreclosure, and state-specific foreclosure timelines), interest rates, and unemployment rate.
- c. **Time varying variables**, e.g., updated LTV (i.e., any changes in LTV), changes in loan size, payment schedule changes, refinance incentives, change in unemployment, and change in HPA.

Next, NERA will estimate **loss severity**. Loss severity is the ratio of charge-off amount to the loan amount, or losses given defaults. In modeling loss severity, we will take into account various loan-specific factors (such as loan vintage, rate, size, purpose and type, geography, LTV ratios, among others), servicer advances, foreclosure-related information (e.g., judicial vs. non-judicial foreclosure, state-specific foreclosure timelines, REO), and mortgage insurance information.

Once we assess the performance of the loans and estimate severity, we would then estimate future losses. In particular, we would simulate the paths that a given loan may follow over time, conditional on its characteristics and economic conditions, as described above. We then tally the paths that result in default relative to the total number of paths. Then, we will adjust these obtained default estimates by multiplying them by the relevant loss severity estimates. Finally, we will aggregate all the projected loan-level losses in the trusts to determine the expected future losses by loan group and trust.