

NewLine Capital

Innovative Housing Finance in Emerging Markets

Opportunities to work with ERSO

April 22 , 2008



NewLine Financing Programs

- NewLine Capital works with banks and non-bank financial institutions in emerging markets as an early stage private sector investor
 - We structure and arrange equity finance, loans, debt finance, warehouse finance and bridges to securitization
 - Investors in our funds are US-based and internationally based hedge funds and institutional buyers such as insurance companies
 - Credit enhancement in new markets may be provided by IFI's, including IFC, OPIC and US AID's DCA program
- Our affiliate NewLine Advisors advises governments, banks and non-bank financial clients on establishment of secondary mortgage and securitization markets



Emerging Markets Focus

- Since inception in 2002, we have worked in South Korea, China, Sri Lanka, Emerging Europe, Nigeria, Turkey and Morocco
- Current programs and projects:
 - Investing in mortgage and consumer loan portfolios in Russia and Ukraine
 - In India, we are working with ADB and a steering community from the banking sector to:
 - Create a framework for a longer tenor local RMBS market and
 - Design and fund a credit enhancement vehicle
 - We are just now launching an Africa fund with an initial focus on South Africa, Kenya and Ethiopia
 - We will seek to expand this to nine target sub-Saharan countries



Early Stage Investments

- We invest in *early-stage* opportunities to provide matched tenor finance to mortgage, home equity, auto, microfinance housing and consumer loan originators
 - We seek to operate in markets with potential for 5% plus annual economic growth over the likely tenor of the consumer assets financed
 - We invest in asset pools, securities backed by loan pools and bonds, and originate warehouse loan financing based on cash flows from asset pools originated to pre-approved standards
 - We believe the spectrum of bankable assets ranges from unsecured short term consumer assets to secured long term mortgages
 - We have experience working with informal incomes and unsecured as well as secured loans
- We will fund to match tenor of assets, e.g. short term for unsecured consumer loans, 1-3 years for auto or microfinance housing, up to 7 years for mortgage loans



FI Sector Clients

- Our clients are local banking and non-bank financials (consumer loan companies, mono-line mortgage companies, MFI's active in housing microfinance, S&L's)
- Why do our clients consider asset-based finance as part of overall capital structure?
 1. Asset-specific
 2. Matched to asset tenor
 3. Priced based on asset risk profile
 4. Growth-oriented funding source
 5. Regulatory pressure to diversify and lengthen funding sources
 6. Regulatory capital relief
- Why work with NewLine to provide asset-based financing?
 - Speed of execution
 - Structured to provide sizeable funds at good rates
 - Bridge to longer-term local debt financing or local or international securitization
 - Flexibility in structuring



Our Investors

- Experienced in investing in bank consumer assets
 - Mortgages
 - Auto loans
 - Consumer loans (point of sale, underwritten, microfinance housing loans, home equity lines)
- Key Factors for Investors: Growth Potential and Affordability
 1. Market profile: country, sector and individual bank originator's growth projections
 2. Margins and margin projections
 3. Duration: payments and prepayments
 4. Default levels: risk profile, current and anticipated
 5. Stability factors: consumer sector, servicing sector, macroeconomic and monetary factors



Credit Enhancement

- Knowledge of local market conditions and a strong local origination partner is the key to success
 - We seek local partners with a solid track record
 - We ask our local partners to provide the first loss piece of each transaction
 - We look to our local partners for primary servicing of loan assets
- Additional credit enhancement in our investments may come from:
 - Senior/subordinated financing
 - IFI loans, investment at mezzanine level or IFI-guarantees for senior paper (full or partial) where needed to attract private capital
- We have devised enhancement solutions to address FX exposures and gaps in title and ownership



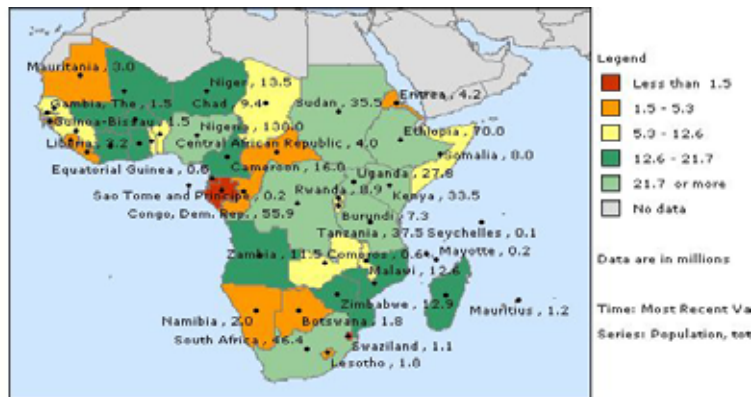
Example: NewLine Africa Capital

- Potential for investment in sub-Saharan Africa?
 - Population growth, increasing urbanization
 - Local economic growth spurred by domestic consumption (as well as commodity and mineral exports) increases consumer incomes
 - This makes housing finance affordable for more of the population
 - Increased demand for housing leads to opportunities for mortgage and home improvement finance
- Three countries of primary focus-South Africa, Kenya and Ethiopia
 - Selected based on population size, per capita GDP growth, and our relatively strong connections in the banking sector
 - We will also look selectively at investments in six other countries: Botswana, Ghana, Mali, Nigeria, Uganda and Tanzania
- Phase 1 (circled) and Phase 2 (to come) both intended to be sized at \$250 million
- Phase 1 will look at existing portfolio investments and warehouse finance; Phase 2 warehouse and more innovative products



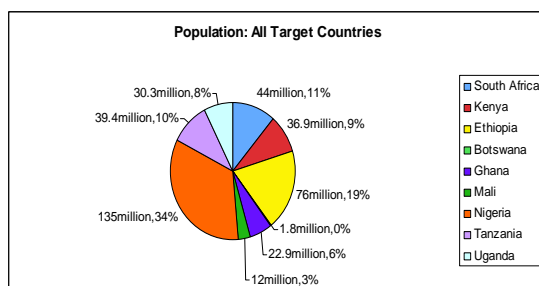
Sustainable Markets: Size and Growth

- We looked for markets with the potential to support multiple transactions over a 5-7 year period
- South Africa, Kenya and Ethiopia, have a total population of 156 million, or 20% of total population of sub-Saharan Africa, with GDP growth rates averaging 7% in 2007 and per capita GDP growth rates of over 5% per annum from 2005 through 2007



Sustainable Markets: Geographic Diversity

- Our total nine target countries have a combined total population of over 390 million, good growth forecasts and geographic diversity



Real GDP Growth

	2007	2008f	2009f	2010f
South Africa	4.80%	4.20%	5.40%	5.80%
Kenya	6.30%	6.00%	6.20%	6.20%
Ethiopia	9.80%	n/a	n/a	n/a
Tanzania	6.90%	n/a	n/a	n/a
Nigeria	5.80%	7.40%	6.50%	5.80%
Botswana	4.70%	4.70%	4.70%	5.00%
Ghana	6.20%	6.00%	6.00%	6.00%
Average (1)	6.36%	5.66%	5.76%	5.76%

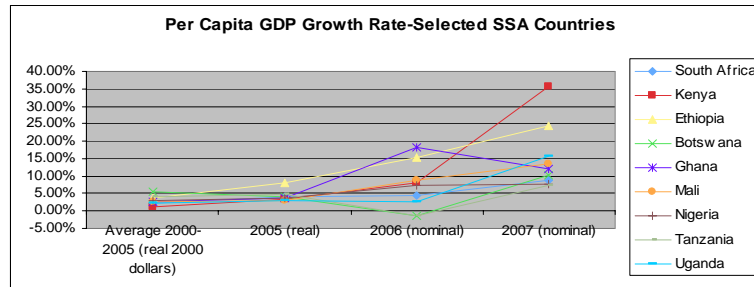
(1) For 2007: 7 countries. For 2008-2010 forecasts: 5 countries

Source: Economist, CIA World Factbook, Standard & Poor's



Consumer Income Growth

- We used at per capita GDP growth rates as an initial proxy for household income growth in our target countries

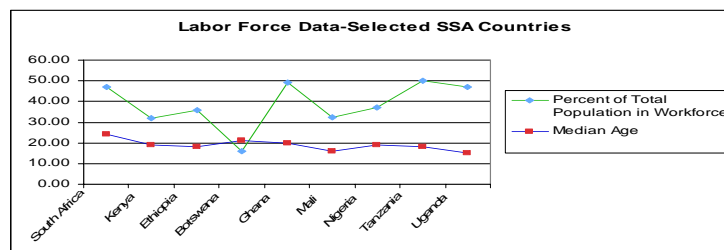


- Improved economic policies, official development assistance, debt forgiveness for HIPC countries (Ethiopia, Kenya, Tanzania, Uganda, Mali) increased government support for education and healthcare, growth in remittances, improved telecommunications and growth in foreign direct investment have all played a positive role



Workforce

- Median age of 18.8 in our target countries indicates a growing labor force coming into working age over the next 5-7 year period



- And there has been significant improvement in literacy and school enrollment

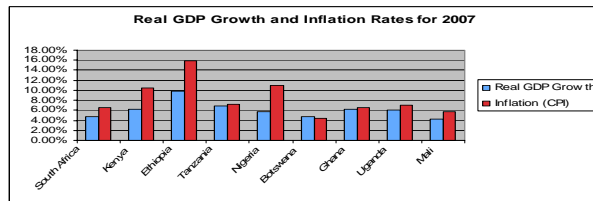
Country	Median Age	Primary School Enrollment		Secondary School Enrollment		Illiteracy Rate	
	2007	1995	2004	1995	2004	1995	2006
South Africa	24	133%	106%	95%	90%	17%	13%
Kenya	19	85%	111%	24%	48%	23%	13%
Ethiopia	18	38%	93%	12%	31%	66%	54%
Botswana	21	108%	105%	63%	75%	27%	18%
Ghana	20	72%	88%	32%	44%	35%	22%
Mali	16	41%	64%	11%	22%	78%	70%
Nigeria	19	93%	99%	32%	35%	44%	28%
Tanzania	18	67%	106%	5%	6%	31%	19%
Uganda	15	74%	118%	12%	16%	38%	28%
NLAC target countries	19	79%	99%	32%	41%	40%	29%

Source: CIA World Factbook 2007
 AIDB Selected Statistics 2007
 (figures above 100% indicate repeaters, those enrolled outside the primary school age cohort)

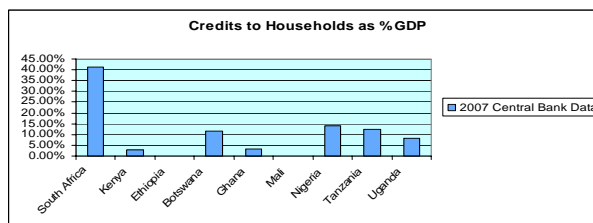


Economic and Sector Risks

- Economic risks: all these economies are fragile, and political crises, food and energy price stresses, inflation, health risks may all negatively affect the forecast



- Early stage risks: The banking sector is small in all target countries except South Africa, and credits to households are a small percentage of GDP



Capital Investments and Mix

- The program will invest in loan portfolios and warehouse finance lines for local sub-Saharan banking and microfinance institutions
 - Purchase of existing portfolios contemplated initially
 - To reach broader markets, we hope to invest in innovative financial products as well as traditional mortgage and consumer loan products.
 - Affordability is a key consideration, so we hope for a good product mix to broaden our reach as far as possible
- Our target mix for Phase 1 of the program:

Type	Potential Pipeline
Mortgage Finance	1 \$100,000,000
Warehouse Finance	1 \$75,000,000
Community Group and Developer Finance	2 \$25,000,000
Micro Housing Finance	3 \$50,000,000



Investors, Returns, Risk Profile

- We anticipate partnering with US-based development agencies Overseas Private Investment Corporation (OPIC) and US AID Development Credit Authority (DCA) to provide senior investment (loans or guaranteed senior paper)
- We will distribute mezzanine debt to hedge fund and development fund investors
- To reach affordability and profitability for our banking clients while offering investor returns at competitive rates in today's markets will be our challenge
- Market and political risk concerns overlay usual credit and operations risks concerns in these new geographies
- We see the role of entities such as ERSO as critical for reaching a good risk: reward structure, particularly for creating investor comfort with more novel product offerings in real estate development and community group finance



Opportunities to Work Together with ERSO

- Co-investment in community group loan finance projects
 - Purchase of loan portfolios
 - ERSO loan to SPV could provide second loss piece
 - Attract investors and reduce cost of funds
 - Potential 5x return on individual project basis: provide \$1 million loan with second loss position to support \$5 million in financing
 - Potential 25x return on structured financing program: provide \$1 million loan as part of three-tier senior, mezz and sub loan financing for development finance program
- Co-investment in community group developer projects
 - Land purchase
 - Home loans for construction
 - Potential equity kicker



Opportunities to Work Together with ERSO

- Co-investment in new product initiative by local bank or NBFI
 - Say, introduction of incremental housing finance product
 - ERSO could provide low cost sub loan tranche to warehouse program to support initial financing
 - With experience and track record, ERSO participation could drop out of subsequent warehouse rollovers—truly “seeding” effect
- Co-investment in program for individual banking client to reduce cost to bank
 - ERSO second loss position could decrease size of first loss piece required of local bank
 - Reduction would in all likelihood not be 1:1



Next Steps: Looking Together at Transactions

- May we suggest that programmatic steps include, right up front:
 - A brief high level description of the following for each target local program or lending institution:
 - Loan product or products: size of portfolio (current or intended), weighted average coupon, weighted average life, average loan size
 - Number of customers, target market
 - Whether loans are secured or unsecured, brief description of underwriting and servicing, percentage of non-performing loans for each product, recovery rate, provisioning
 - A brief description of program or target client capital structure and immediate capital raising plans
 - An initial affordability and suitability analysis



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Appendix I: NewLine Background and Current Financing Activity

- NewLine began operations in 2002, structuring a South Korean mortgage warehouse with IFC participation. From 2003 through 2007 we have advised on projects in China, Sri Lanka, Turkey, Morocco, Poland, Romania, Russia, Ukraine, Southeastern Europe, South Africa, India and Nigeria
- In 2006, NewLine teamed up with hedge fund The Rohatyn Group ("TRG") to create a financing vehicle to fund bank originators of mortgage, home equity and consumer assets in Ukraine, Russia, Poland and Romania. We established a joint venture company, Mamaroneck Asset Funding Company ("MAFCO"), through which to place structured debt financings arranged by NewLine for bank originators. We closed our first securitization transaction in Ukraine in October, 2006. We expect to finance up to \$500 million in housing assets in Russia and Ukraine by year end 2008
- We are presently mandated to finance a \$500 million credit enhancement program in India with the ADB
- We are raising capital in two phases for our sub-Saharan Africa investment program.



Appendix I (cont.): NewLine Principals

- NewLine's founders, Barbara Hewson and Iain Heggie, are former colleagues at JP Morgan Chase, responsible for MBS, ABS, receivables finance, mortgage and asset-backed conduit and structured lending programs totalling over \$3 bn in over 20 international markets
- In 2004, Ann Marshall joined NewLine to add in-depth regional expertise in Emerging Europe, with background as COO of the Pioneer Group's Moscow-based group of asset management and capital markets companies
- John Currier joined NewLine in 2007 from Princeton University, where he was responsible managing a portfolio of over 260 high net worth individuals. He previously worked in structured investment management at National City Corporation in Cleveland, Ohio
- Tom Glanfield joined NewLine in 2008 after having headed the global Structured Finance Advisory business as a partner at Ernst & Young. Tom's previous experience includes senior management positions in banking and private equity investment



Appendix I (cont.): NewLine Advisory Appointments

Selected Emerging Markets Mortgage Finance Advisory Projects:

- Design and establishment of US \$125 million mortgage warehouse lending program in Korea for IFC (2002)
- Investment evaluation on behalf of senior international investors of mortgage underwriting, servicing and special servicing processes and practice in select Polish banks (2003)
- Review of Legal Framework for Secondary Mortgage Market in Ukraine for USAID and National Bank of Ukraine (2004)
- Review of Mortgage Lending Enabling Legislation in Nigeria for USAID and the Federal Mortgage Bank of Nigeria (2005)
- India Mortgage Enhancement Project with Asian Development Bank, HDFC and National Housing Bank (2006)



Appendix I (cont.): TRG and NewLine

- The Rohatyn Group was founded by Nicolas Rohatyn, former head of Emerging Markets at JP Morgan Chase
- With over \$2 billion in assets under management, TRG is a leading hedge fund investor in emerging markets
- TRG and NewLine have partnered as investors in the MAFCO Conduit Program
 - NewLine Capital Partners, LLC: 51%
 - Funds managed by TRG Management, LP, 49%



Transaction Detail

- **Types of Investments**
 - Asset pools issued or originated by local market mortgage and consumer asset originators
 - Secured lending arrangements
- **Structuring**
 - Based on bankruptcy, lien, pledge, mortgage, securities law, regulatory and tax considerations
 - Investment can be in existing asset pools or in assets to be originated (warehouse finance)
 - Each transaction will be backed in the first instance by the mortgage or asset originator, at a level determined by the originator's credit profile and the quality of the mortgage or consumer asset portfolio
- **Servicing**
 - The asset originator will act as primary servicer for the asset pool securing the debt
 - Master servicing oversight provided by top-tier accounting firm or major bank trustee
- **Portfolio evaluation**
 - Asset portfolios will be evaluated using credit risk and stress-testing, adjusted for country factors
 - Good IT and data flow is essential over the life of the investment
- **Rating**
 - In today's market, simple and straightforward structures are best
 - We do not anticipate seeking an international transaction rating until sufficient pool history performance data is available to achieve best execution

