



SHERMAN FINANCIAL GROUP LLC

*Presentation:*

*Radian Investor Day*

*November 11, 2004*



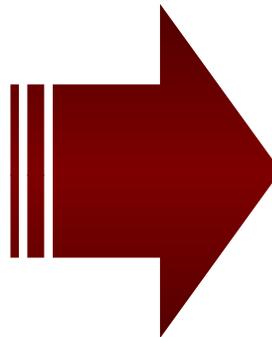
# Sherman's Business

Profit from Understanding the Unsecured Distressed Consumer Debtor

CHARGE-OFFS

CONSUMER  
BANKRUPTCIES

PERFORMING/  
SUB PERFORMING  
ASSETS



PURCHASE

SERVICE

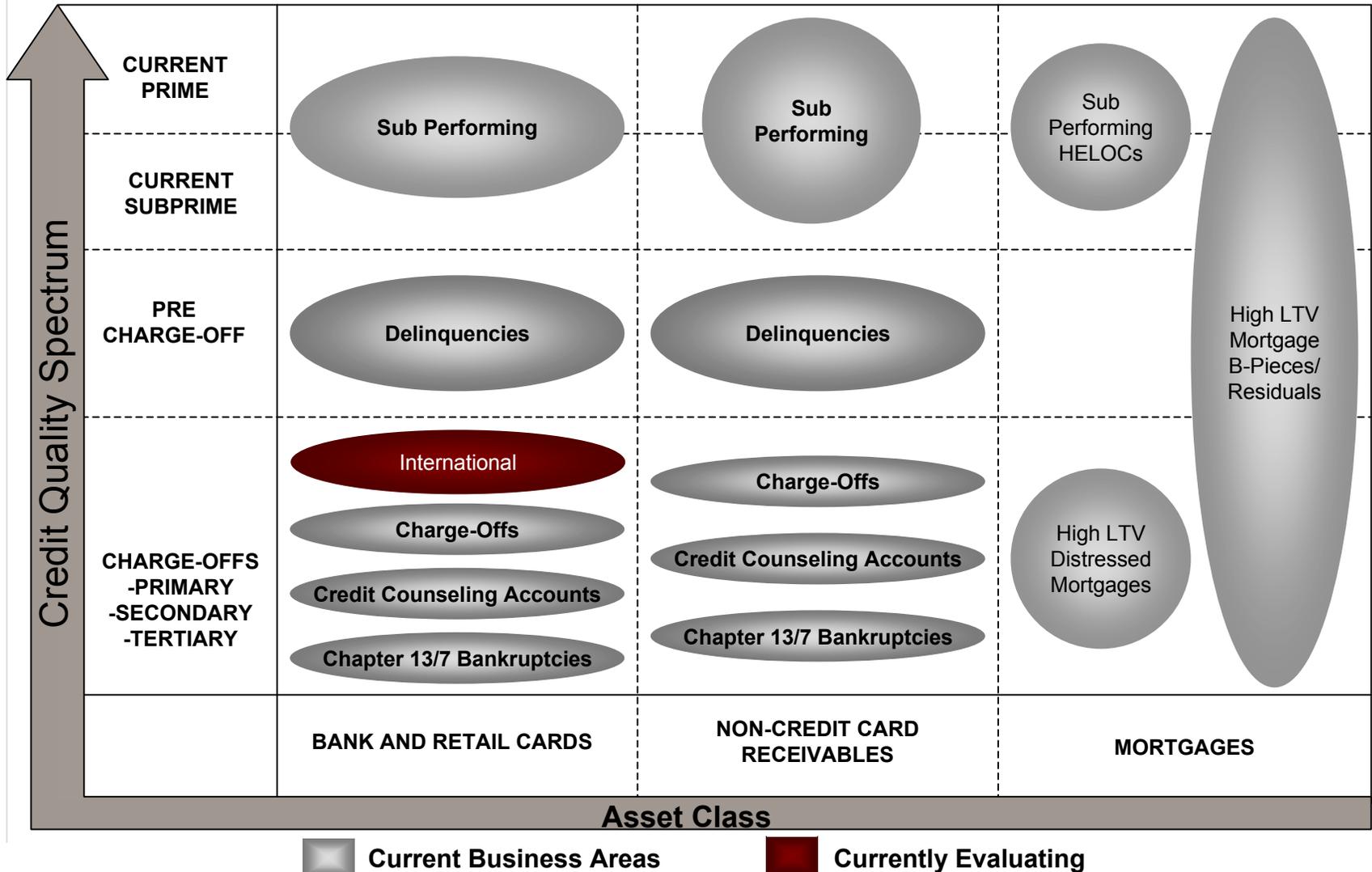
SECURITIZE

**Sherman Financial Group is the nation's largest unsecured distressed debt buyer.**



# Sherman Overview– Asset Purchasing

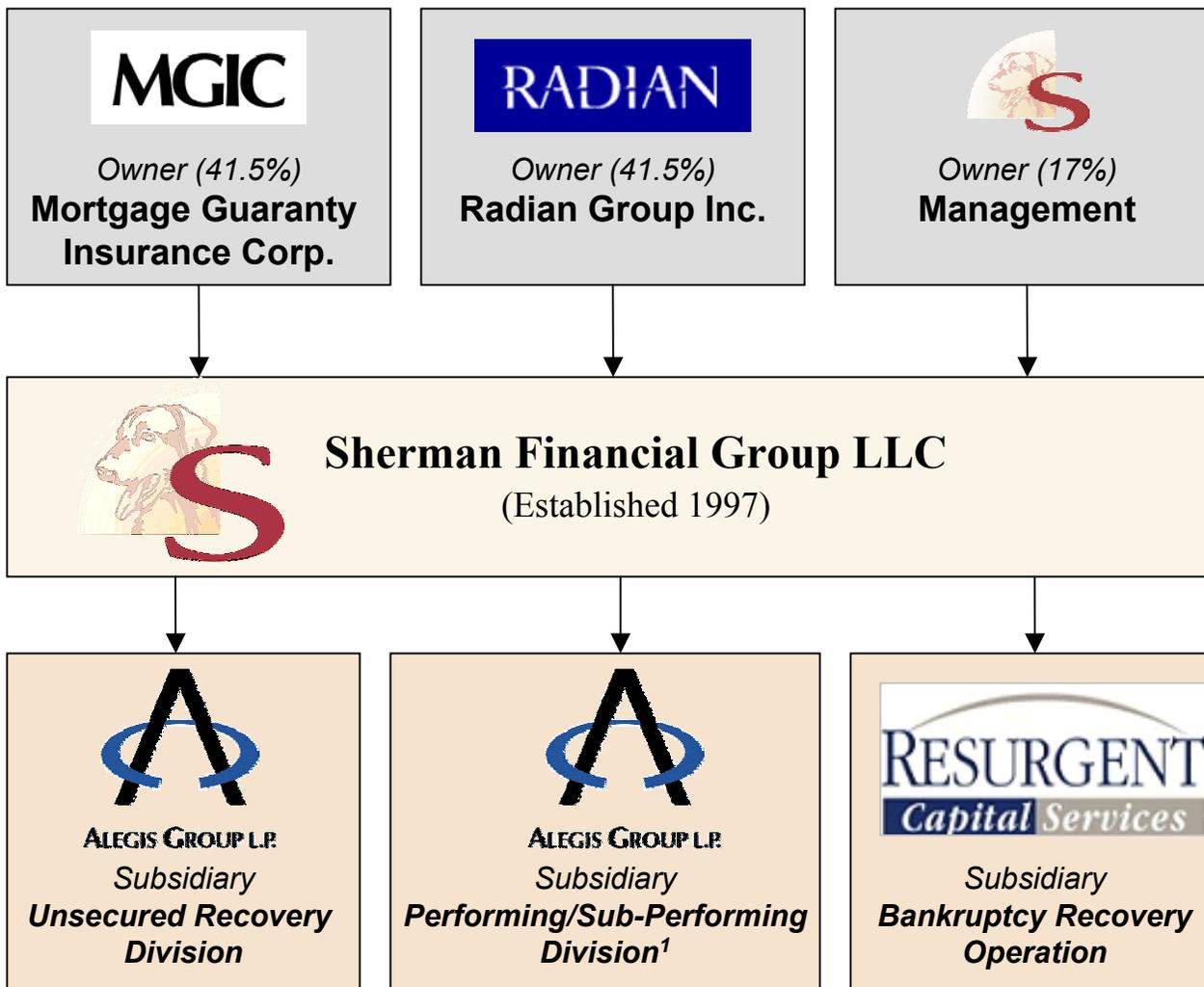
Sherman purchases a broad array of asset types at various points in the credit spectrum.





# Sherman Overview

## Corporate Structure



Note: 1. Includes Credit Rehabilitation.



# Sherman Overview

## Corporate Governance



### Oversight

**Jeffrey Lane**, SVP, General Counsel, Mortgage Guaranty Insurance Corp.

**Mark Casale**, SVP, Radian Guaranty Inc.

### Board Participation

**Jeffrey Lane**, SVP, General Counsel, MGIC

**Stephen Blose**, VP, MGIC

**Frank Filippis**, CEO, Radian Guaranty Inc.

**Robert Quint**, CFO, Radian Guaranty Inc.

### Involvement

#### Deal Approval Calls

On investments greater than \$15mm

#### Monthly Review Calls

Financial Statements

Portfolio Performance Review

#### Quarterly Board Meetings

Complete Business Review

Deloitte & Touche Annual Audit Report

Budget Approval

#### Approval of Material Operating Decisions

### Capital Contributions

**12/98 - \$ 44.4mm**

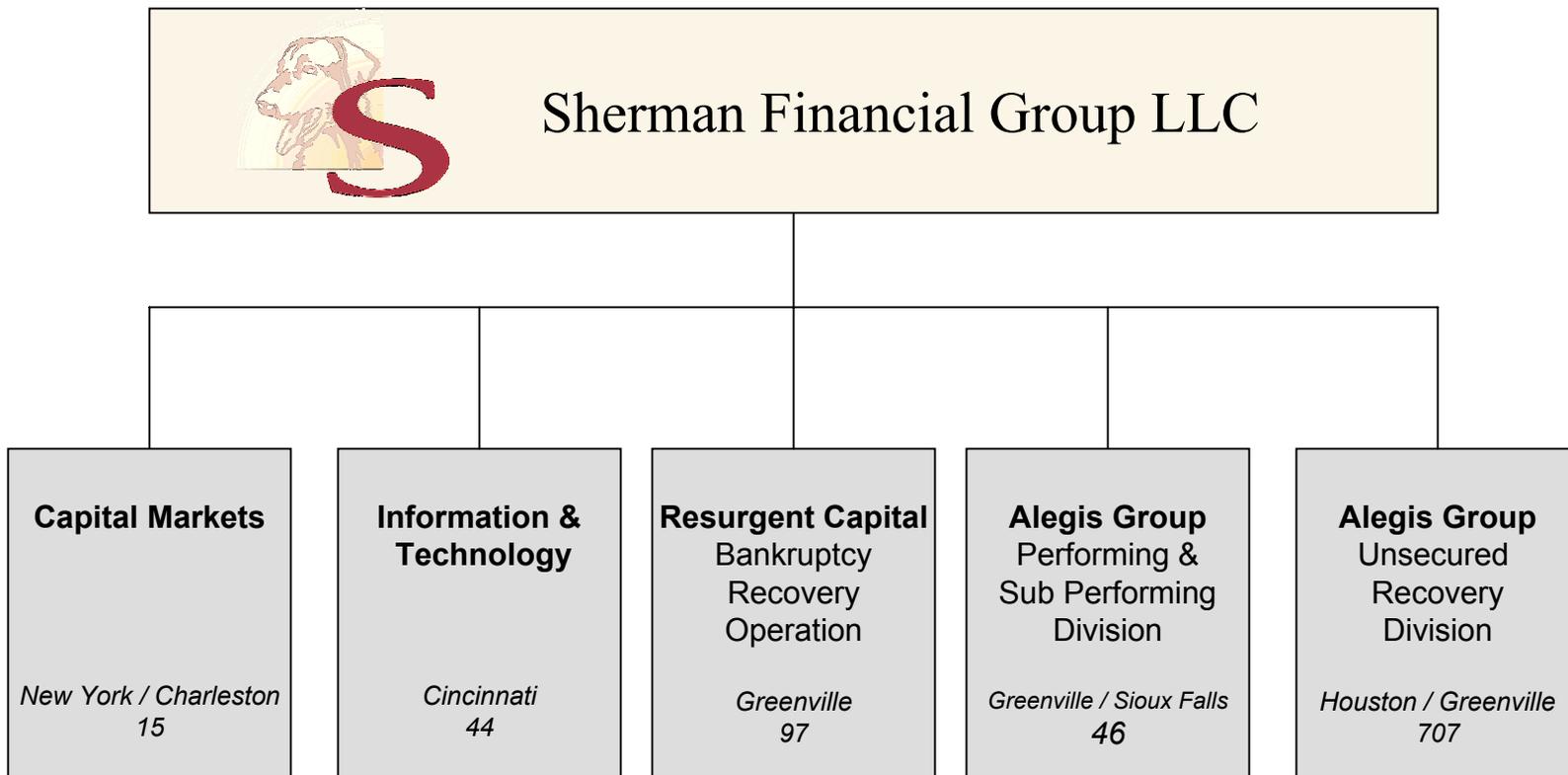
**1/01 - \$ 10 mm**

**6/01 - \$ 20 mm**



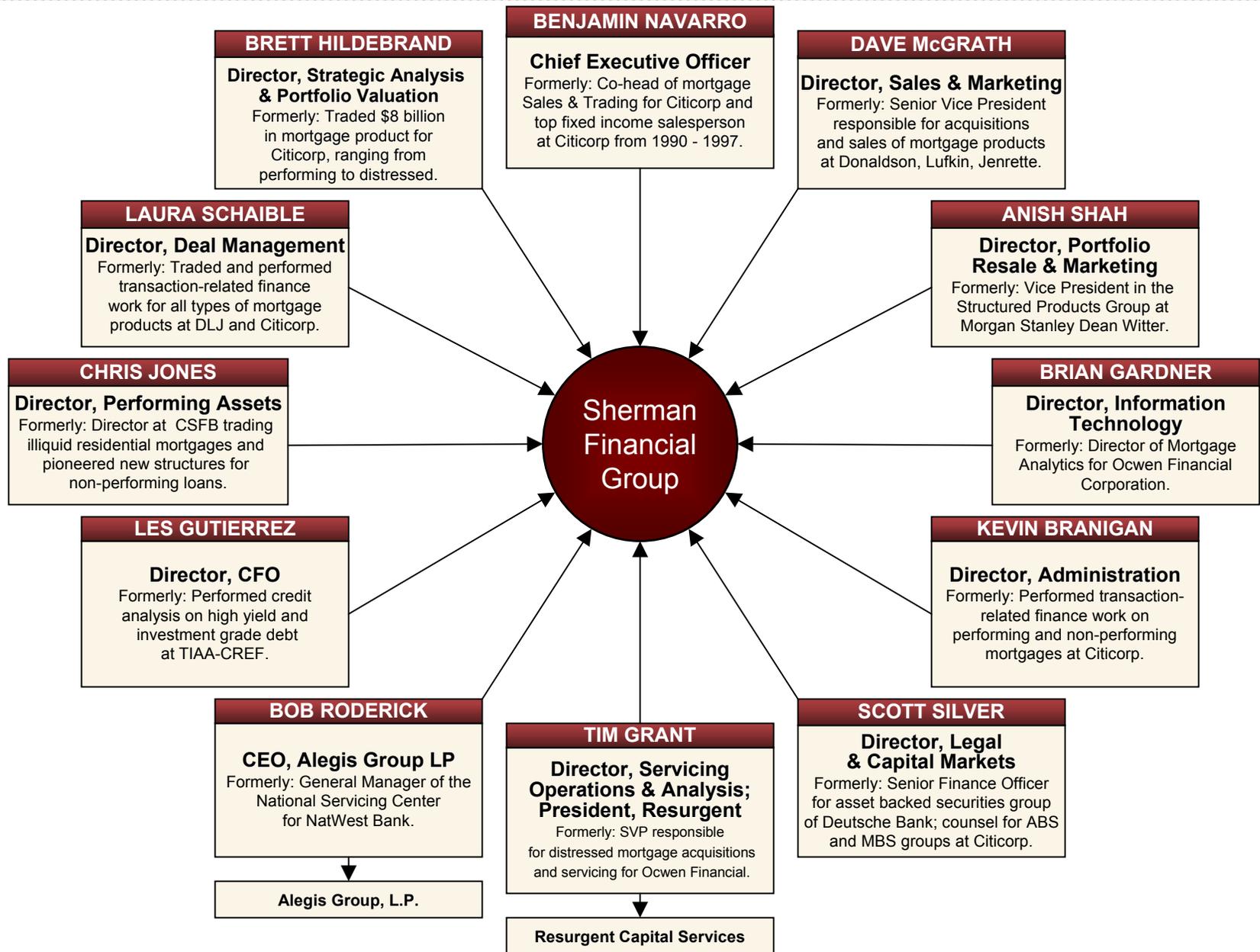
# Sherman Overview

## Sherman Organization





# Sherman Overview - Management





# Sherman Overview

## Competitive Advantages

Sherman Financial Group is a full service provider of recovery services, including purchasing and servicing all types of distressed and bankrupt consumer debt. Sherman's competitive advantages include the following:

### 1. Intellectual Capital

#### Resource

##### **15 Person Front Office**

Average of 15 years experience managing relationships, analyzing, pricing, financing & closing distressed consumer debt deals.

##### **44 Person Technology Group**

A centralized effort, supporting both the front office as well as all operations infrastructure.

##### **Senior Operations Management Team**

A seasoned group of senior operating personnel with experience not only in collections but also in a wide array of operating companies.

#### Benefit

Ability to develop and maintain close ties with issuers, create structures to meet their needs, and expedite execution of transactions on all types of distressed consumer debt.

Ability to easily handle all IT requirements, including internal and external reporting requirements, data exchange with issuers, and support of front office analytics through extensive database management and sophisticated model development.

Well managed, professionally run, scalable operating company with strong culture and the ability to quickly add required operating expertise.



# Sherman Overview

## 2. Financial Resources

### Resource

**Owned by MGIC & Radian**

**Committed Financing Facilities**

**Cash Flow**

### Benefit

\$159 MM in capital and over \$500 MM in financing lines gives Sherman significant financial resources and flexibility. The continued involvement and oversight of MGIC and Radian add to Sherman's credibility within the industry.

A current portfolio run rate of over \$60 MM in monthly portfolio gross collections gives Sherman internally generated capital for growth.

## 3. Operating Capacity

### Resource

**Alegis Group**

Over 700 (and growing) well trained collections personnel in 2 sites, utilizing state of the art systems & technology to liquidate both owned & third party assets.

**Resurgent Capital Services**

A fully automated state of the art bankruptcy operation liquidating both owned and third party assets. Integration with Alegis allows for a life cycle approach to recoveries.

**Sherman Investor Services**

The largest outsourcer of distressed consumer paper in the US with a staff of 160 people.

### Benefit

Sherman's approach to recoveries ensures maximum liquidations, while providing the flexible operating capacity to allow for opportunistic portfolio purchases of varying size and scale.



# Sherman Overview

## Transaction Highlights – Over \$30 Billion in Receivables<sup>1</sup>

- Sherman is the largest buyer of distressed consumer debt in the nation.
- The ability to grow to this size comes from Sherman's involvement in a variety of asset classes, creative structuring ideas, flexible operations platform and access to substantial capital.

Transaction Type	Transaction Description
<b>Charge-offs</b>	<ul style="list-style-type: none"><li>• In the largest transaction in the charge-off market, measured by proceeds, Sherman acquired the entire distressed portfolio of a large issuer exiting the credit card business.</li><li>• Portfolio size was in excess of \$3 billion.</li></ul>
<b>Charge-offs</b>	<ul style="list-style-type: none"><li>• Acquisitions of charged-off portfolios have proven to be a challenging business as judged by the number of competitors who have failed (7 in the last 3 years). To date, Sherman has acquired portfolios of three failed competitors.</li><li>• The principal balance from these three acquisitions totaled approximately \$6.5 billion.</li></ul>
<b>Chapter 13 Bankruptcies</b>	<ul style="list-style-type: none"><li>• Sherman developed a structure that allowed the purchase of a top issuer's entire Chapter 13 credit card bankruptcy portfolio totaling \$1 billion. The transaction also includes 100% of the ongoing monthly flow.</li><li>• Additionally, the issuer outsourced the entire Chapter 13 Bankruptcy operation to Sherman.</li></ul>

Note: 1. As of June 2004.



# Sherman Overview

## Transaction Highlights – Over \$30 Billion in Receivables

Transaction Type	Transaction Description
<b>Delinquent Credit Card Receivables</b>	<ul style="list-style-type: none"><li>• A major issuer needed to sell its pre charge-off delinquent credit card receivables in a short timeframe. Sherman was able to price, diligence and close the transaction within two weeks.</li><li>• To date, Sherman has completed two transactions of this type with a principal balance totaling approximately \$125 million.</li></ul>
<b>Performing Credit Cards &amp; Installment Loans</b>	<ul style="list-style-type: none"><li>• A major financial institution exiting the consumer lending business had approximately \$250 million of mostly performing but difficult to sell private label and installment loans. Sherman's acquisition of this portfolio completed the financial institution's exit from the business.<ul style="list-style-type: none"><li>• Proceeds totaled over \$150 million.</li></ul></li><li>• A major credit card issuer originated a portfolio of second lien home-equity lines of credit tied to credit cards. The program was no longer strategic for the institution. Sherman's acquisition of this portfolio completed the financial institution's exit from this business.<ul style="list-style-type: none"><li>• Portfolio size was approximately \$75 million.</li></ul></li></ul>
<b>Second Lien Mortgage Loans and "BB" &amp; Residual Bonds</b>	<ul style="list-style-type: none"><li>• Developed a structure allowing Sherman to purchase the entire unrated subordinate class from a home equity securitization and the rights to all future charge-offs.</li><li>• The securitization was comprised of the issuer's remaining portfolio of second lien mortgage loans that were eligible for securitization totaling approximately \$1.7 billion.</li><li>• To date, Sherman has purchased \$200 million of charged off second lien mortgage loans from this securitization.</li><li>• Purchased \$60 million of 'BB' rated bonds from the same securitization.</li></ul>
<b>Securitizations:</b>	<ul style="list-style-type: none"><li>• Active investor in under performing master trust securitizations, both open and closed accounts.</li></ul>



# Sherman Overview

**Strategy:** Maintain acquisition activities separate from operating activities and benchmark internal results with outside servicers.

## Approach

### **Run operating companies as stand alone entities**

- Charge Sherman a market servicing fee
- Maintain separate financial reporting

### **Outsource a portion of the servicing on owned assets to third parties**

### **Perform servicing for others on a fee basis**

### **Price paper based on the average recovery experience of all the seller's current agencies**

## Benefit

Ease of managing purchasing activities separate from servicing activities

Allows benchmarking of performance as well as an overflow option when capacity is strained.

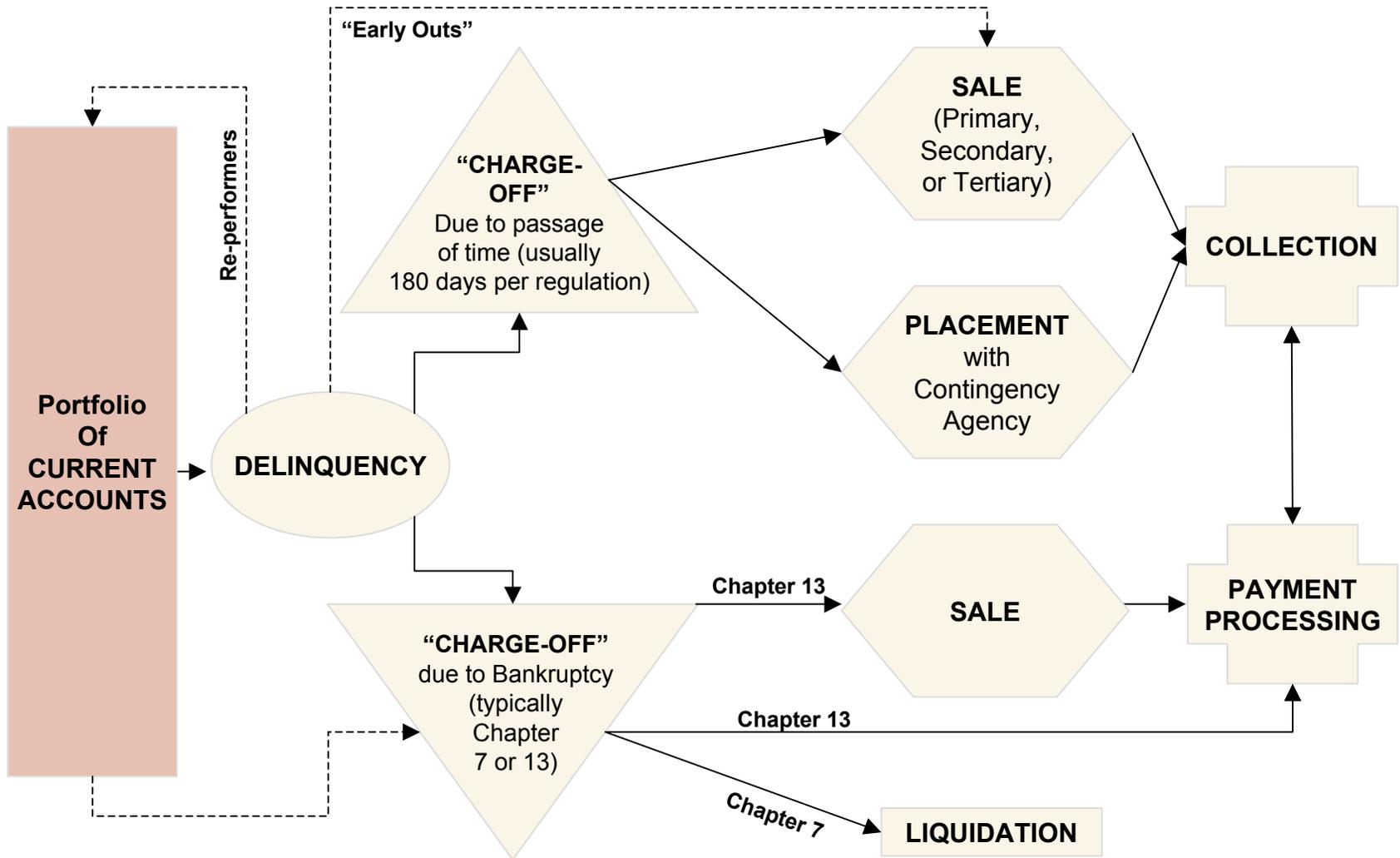
Allows benchmarking of performance and access to recovery experience of additional issuers

Return not dependent on a specific servicer, any improvement versus the average is upside.



# Asset Overview

## Typical Consumer Debt Issuer Life Cycle of Delinquent Accounts



Once Accounts are charged off (i.e. written down to zero), they become expensive for issuers to hold.



# Asset Overview

## The United States Bankruptcy System

### Chapter

# 7

Chapter 7 bankruptcy is a liquidation proceeding available to consumers, under which, the debtor's assets that are not exempt from creditors are collected and liquidated, and the proceeds are distributed to creditors. A consumer debtor receives a complete discharge from his debt under Chapter 7, except for certain debts that are prohibited from discharge by the Bankruptcy Code. In general 96% of Chapter 7 cases produce no assets.

### Chapter

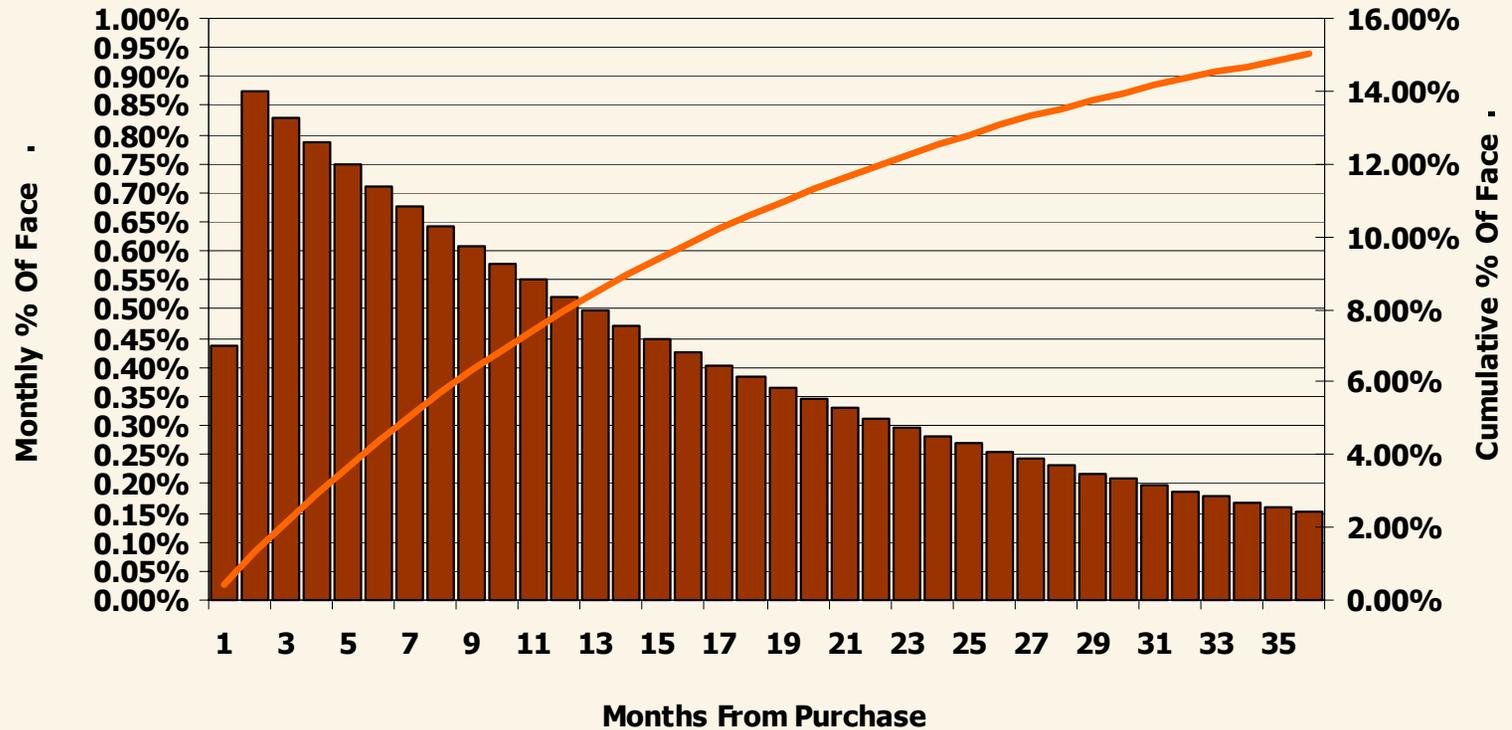
# 13

Chapter 13 is used primarily by individual consumers to reorganize their financial affairs under a repayment plan that must be completed within three to five years. The plan only pays a percentage of the original outstanding debt, the percentage varying widely from district to district. To be eligible for Chapter 13 relief, a consumer must have regular income and may not have more than a certain amount of debt, as set forth in the Bankruptcy Code. During the life of the plan, the debtor may: Complete the plan and obtain a discharge of all debts under the plan, Terminate payments and convert the bankruptcy to a Chapter 7, Stop making payments, causing the court to dismiss the bankruptcy and allowing creditors to resume traditional collection efforts.



# Asset Overview

## Hypothetical Charge-off Recovery Curve





# Market Overview

## 2003 – Leading Purchaser of Charged-Off Credit Card Debt<sup>1</sup>

	<b>Debt Buyer ('02 Rank)</b>	<b>Credit Card Only (in MM)</b>	<b>Total Purchases</b>
1.	<b>Sherman Financial Group (1)</b>	<b>\$8,750.0</b>	<b>\$9,950.0</b>
2.	<b>B-Line (4)</b>	<b>\$8,002.0</b>	<b>\$8,498.0</b>
3.	<b>Asta Funding (18)</b>	<b>\$4,600.0</b>	<b>\$4,600.0</b>
4.	<b>Unifund (5)</b>	<b>\$3,610.0</b>	<b>\$4,210.0</b>
5.	<b>Max Recovery (9)</b>	<b>\$3,323.0</b>	<b>\$3,996.0</b>
6.	<b>Midland Credit Management (6)</b>	<b>\$2,863.3</b>	<b>\$9,289.3</b>
7.	<b>Collect America (8)</b>	<b>\$2,600.0</b>	<b>\$2,700.0</b>
8.	<b>Asset Acceptance (2)</b>	<b>\$2,300.0</b>	<b>\$4,280.0</b>
9.	<b>NCO Portfolio (3)</b>	<b>\$2,200.0</b>	<b>\$2,600.0</b>
10.	<b>Arrow Financial (7)</b>	<b>\$2,000.0</b>	<b>\$2,100.0</b>

Note 1- Source: 2004 Nilson Report



# Credit Rehabilitation Program

Sherman has recently begun offering a credit rehabilitation product (Ascent Card), which is a significant innovation in debt resolution.

## Sherman offers a credit rehabilitation program...

- Competitive fixed interest rate of 19.90%
- Low fee product
- Average credit line approximately \$1,500

## ...developed by Alegis Group Management Team.

- Strong background in creating and managing consumer credit rehabilitation programs
- Experienced in operational, compliance and risk management controls



## ...an opportunity for credit rehabilitation...

1. Balance of debt is transferred to a bank credit card
2. Credit report reflects that the debt has been "paid in full"
3. Customers can build purchasing power on their newly issued Ascent Credit Card.

## ...with a customer friendly approach.

Sherman, through Alegis Group, continually works to educate customers on the benefits of making timely payments in order to rehabilitate credit.

- 
- 30,000 Current Customers
  - \$40 million Outstanding Balance