
Conseco Manufactured Housing Business Data Gaps Lessons Learned

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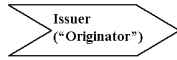
Date: March 24, 2003

Lessons in 20/20 Hindsight

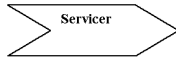
- Limited investment to learn the business
- Entered as investor rather than secondary market player
- Overly relied on rating agency
- Compelling driver: goals rich business
- Incomplete knowledge is a given = risk

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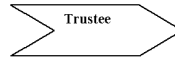
Breakdown All Counter Parties with respect to their role and understand the business model of each



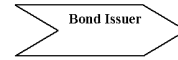
- Loosened credit standards attracted lower quality borrower
- Eased loan terms created a mismatch between loan term and asset depreciation



- Understand compensation structure and if it makes economic sense
- Conseco's 50 bps servicing fee was in a subordinate position; thus they ended up getting about 12 bps (not enough to cover costs)

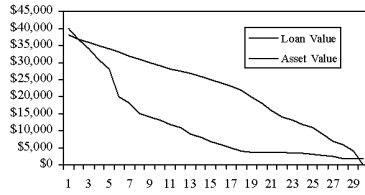


- No clear legal rights



- Relied principally on rating agency

MHAsset Residual Value vs. Loan Principal Remaining

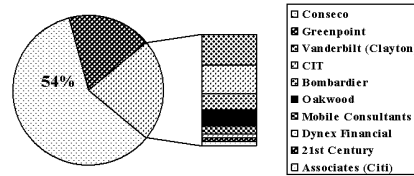


- Don't limit perspective to just the business partner with whom we will deal
- Good partners do not abdicate responsibility to understand the business
- Determine how will each perform in up and down markets and plan accordingly

Size Risk/Exposure for Each Party

- High level of concentration in our business and the industry overall was a warning light
 - The top 10 originators in MH accounted for 94% of the industry volume
 - In 2000, Conseco had a 54% market share of manufactured housing originations
 - As of 10/31/02, Conseco Finance securities comprise 70% of our current manufactured housing balances
 - The percentage of each Conseco issue purchased by Fannie Mae increased from an average of 18% on 94/95 issues to 50% on 99/00 issues

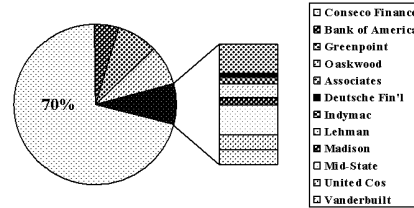
Top Ten HMDA Manufactured Housing Originators in 2000



Source: Insided MBS & ABS, 1/18/02; Conseco annual report

- Assess and manage level of concentration
 - How much of our business is concentrated across few to one players
 - How concentrated is the industry
 - Have policies that set concentration limits or incentives for diversification (<\$ = follow simple guidelines; >\$ = go level deeper)

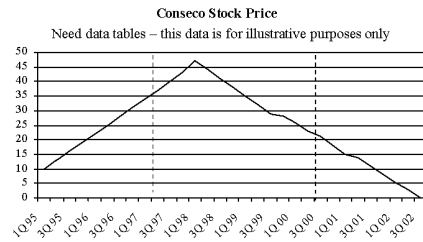
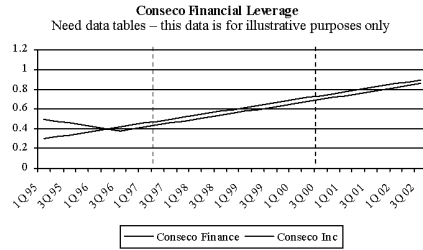
Fannie Mae's Manufactured Housing Securities by Issuer (10/31/02)



Develop and Utilize Multiple Early Indicators

- We relied completely on one reference point, the rating agencies
 - Rating agency model slow to change rating; not sufficiently dynamic
 - insulated from understanding the business

- Other indicators could have given us a heads up
 - Financial leverage of Conseco Inc and Conseco Finance increased steadily from 4Q96
 - Conseco stock price declined steadily from 1Q98
 - Most other players left the market
 - Company (exit date)
 - Greenpoint (1/02)
 - FirstMerit (10/01)
 - Bombardier (9/01)
 - Associates (1/00)
 - Deutsch Bank (11/99)
 - United Cos (10/98)
 - IndyMac (3Q 98)
 - Bank of America (9/98)



Have an Exit Strategy

- Servicing Strategy
 - Tier requirements
 - Track against them
- Goal can't be zero loss
 - We're in the risk taking business
- Unrealistic to be able to forecast everything and to always get it right
 - Tripwires to get out
- Clarity of who at Fannie Mae owns the business
- If our partner fails, how does the risk get handled
- Legal rights

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