

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 8-K**

**Current Report Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): September 25, 2006**

**SAXON CAPITAL, INC.**  
(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of Incorporation)

**001-32447**  
(Commission File Number)

**30-0228584**  
(I.R.S. Employer Identification No.)

**4860 Cox Road, Suite 300  
Glen Allen, Virginia**  
(Address of principal executive offices)

**23060**  
(Zip Code)

Registrant's telephone number, including area code **(804) 967-7400**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

**Item 7.01. Regulation FD Disclosure**

Saxon Capital, Inc. (the "Company") is furnishing the text of presentation materials, included as Exhibit 99.1 to this report, pursuant to the Securities and Exchange Commission's Regulation FD. The materials also will be posted to the Company's website at [www.saxonmortgage.com](http://www.saxonmortgage.com). The presentation materials were prepared to be used by Company management beginning on September 25, 2006 in meetings with investors. This information is furnished pursuant to Item 7.01 of Form 8-K and shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing. By filing this report on Form 8-K and furnishing this information, the Company makes no admission as to the materiality of any information in this report that is required to be disclosed solely by reason of Regulation FD.

**Item 9.01. Financial Statements and Exhibits**

(c) Exhibits

99.1 Text of presentation materials

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**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: September 25, 2006

SAXON CAPITAL, INC.

By: /s/Carrie J. Pettitt

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Carrie J. Pettitt  
Vice President and Controller

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## INDEX TO EXHIBITS

### Exhibits

99.1 Text of presentation materials



# FORWARD LOOKING STATEMENTS

Statements in this presentation other than statements of historical fact, are “forward-looking statements” that are based on current expectations and assumptions. These expectations and assumptions are subject to risks and uncertainty, which could affect Saxon’s future plans. Saxon’s actual results and the timing and occurrence of expected events could differ materially from its plans and expectations due to a number of factors, such as (i) changes in overall economic conditions and interest rates, (ii) Saxon’s ability to successfully implement its growth strategy, (iii) Saxon’s ability to sustain loan origination growth at levels sufficient to absorb costs of production and operational costs, (iv) continued availability of credit facilities and access to the securitization markets or other funding sources, (v) deterioration in the credit quality of Saxon’s loan portfolio, (vi) lack of access to the capital markets for additional funding, (vii) challenges in successfully expanding Saxon’s servicing platform and technological capabilities, (viii) Saxon’s ability to remain in compliance with federal tax requirements applicable to REITs, (ix) Saxon’s ability and the ability of its subsidiaries to operate effectively within the limitations imposed on REITs by federal tax rules, (x) changes in federal income tax laws and regulations applicable to REITs, (xi) unfavorable changes in capital market conditions, (xii) future litigation developments, (xiii) competitive conditions applicable to Saxon’s industry, and (xiv) changes in the applicable legal and regulatory environment. You should also be aware that all information in this presentation is as of June 30, 2006. Saxon undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the Company’s expectations.

## INFORMATION & WHERE TO FIND IT

- ❑ Reg AB static pool data can be found at [www.saxonmortgage.com/staticpool](http://www.saxonmortgage.com/staticpool).
- ❑ Corporate presentations, company financials, corporate SEC filings and other useful links can be found at [www.saxonmortgage.com](http://www.saxonmortgage.com) (click on the Investor Relations link).
- ❑ Underwriting guidelines, matrices and product profiles can be found at [www.esaxon.com/wholesale/index.jsp](http://www.esaxon.com/wholesale/index.jsp) (under Matrices).
- ❑ Securitization program (SAST) information can be found at [www.saxonmortgage.com](http://www.saxonmortgage.com) Information available includes:
  - Pricing information and the prospectus for our transactions
  - Remittance statements and transaction profile reports
  - Monthly CPR analysis and actual vs. pricing CPR
  - Quarterly loss reports and loss severity report
  - Prepayment penalty collection and roll rate information

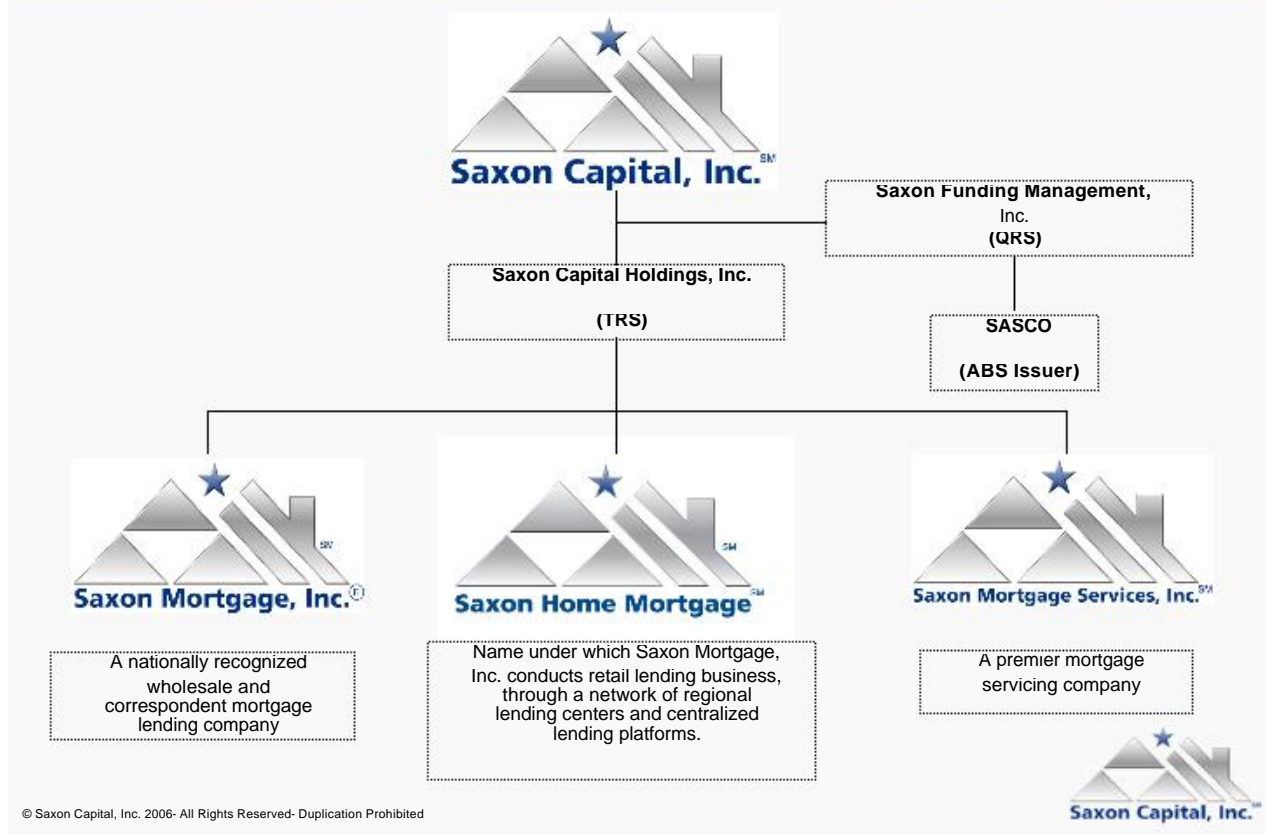
# MERGER AGREEMENT

## **Saxon Capital, Inc. Agrees to be Acquired by Morgan Stanley**

On Aug. 9, 2006 Saxon Capital, Inc. ("Saxon" or the "Company") (NYSE: SAX), a residential mortgage lending and servicing real estate investment trust (REIT), announced the signing of a definitive merger agreement pursuant to which Morgan Stanley (NYSE: MS) will acquire all of the outstanding shares of Saxon for \$14.10 per share in cash. The total value of the transaction is approximately \$706 million. The acquisition is subject to certain terms and conditions customary for transactions of this type, including receipt of regulatory approvals and Saxon shareholder approval, and is expected to be completed by the end of 2006.



# SAXON COMPANIES



- ❑ Saxon is building a high-quality non-conforming mortgage loan portfolio
  - Portfolio accounting (no on-balance-sheet residual valuation)
  - Generally hold and securitize 100% of 1<sup>st</sup> lien production
  - Holder of the first loss/residual risk (generally below BBB– credit risk)
  - Proactively manage the credit risk through our “Life of the Loan Credit Risk Management” philosophy
  - Nine+ years of performance history in our enterprise data warehouse
- ❑ Grow 3<sup>rd</sup> party servicing
  - Managed growth
  - Utilize capacity in Texas and Virginia servicing centers
    - Texas capacity of \$30B; currently at approximately 76% capacity
    - Virginia capacity of \$20B; currently at approximately 17% capacity
- ❑ Initiation of conduit purchase program

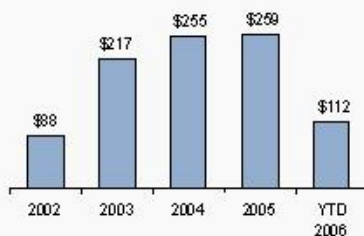
- Improve efficiencies and reduce costs
  - Consolidated the back-office operations of the wholesale and retail channels (2005)
  - i-deals – new automated underwriting engine (2005)
  - MRG – automated closing doc generation and delivery (2005)
  - Netox – new origination platform (May 2006)
  - elock – automated lock function (4<sup>th</sup> Quarter 2006)



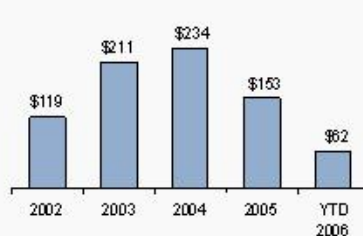
# HISTORICAL PERFORMANCE

Data as of June 30, 2006

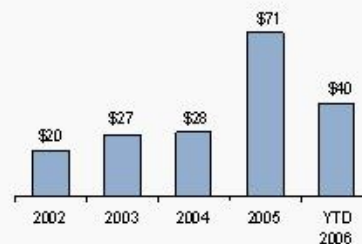
**Total Net Revenue (In Millions)**



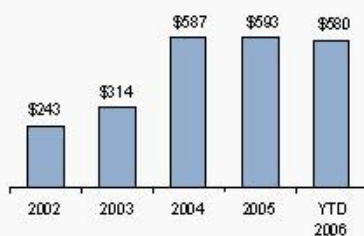
**Net Interest Income (In Millions)**



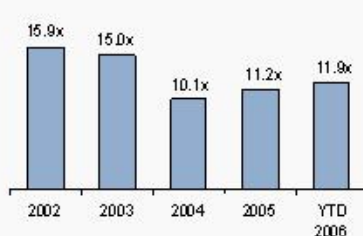
**Net Servicing Income (In Millions)**



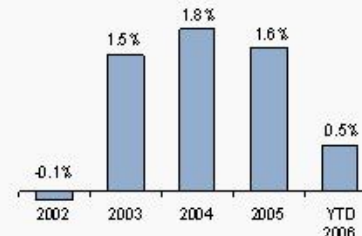
**Shareholders' Equity (In Millions)**



**Debt-to-Equity**



**Return on Average Assets**



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# CONDENSED CONSOLIDATED BALANCE SHEET

Data as of June 30, 2006

	30-Jun-06	31-Dec-05
<b>Assets:</b>		
Cash	\$13,344	\$6,053
Trade receivable	139,937	135,957
Restricted Cash	6,005	147,473
Accrued interest receivable, net of allowance for past due interest losses of \$13,921 and \$16,086 respectively	43,055	38,182
Mortgage loan portfolio	6,758,659	6,444,872
Allowance for loan losses	(35,412)	(36,639)
Net mortgage loan portfolio	6,723,247	6,408,233
Securitization related advances	220,101	185,297
Mortgage servicing rights, net	145,327	129,742
Real estate owned	41,079	38,933
Derivative assets	40,023	19,954
Deferred tax asset	53,908	53,724
Other assets, net	70,621	68,530
<b>Total assets</b>	<b>\$7,496,647</b>	<b>\$7,232,078</b>
<b>Liabilities and Shareholders' equity:</b>		
<b>Liabilities:</b>		
Accrued interest payable	\$10,588	\$8,357
Dividends payable	25,468	32,539
Warehouse financing	245,979	378,144
Securitization financing	6,434,332	6,182,389
Derivative liabilities	21,022	8,589
Senior notes	150,000	0
Other liabilities	29,577	28,925
<b>Total liabilities</b>	<b>6,916,966</b>	<b>6,638,943</b>
<b>Shareholders' equity:</b>		
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; shares issued and outstanding: 50,080,215 and 50,001,909 as of June 30, 2006 and December 31, 2005, respectively	501	500
Additional paid in capital	636,298	634,023
Accumulated other comprehensive loss, net of income tax of \$(12) and \$(16), respectively	(277.00)	(355.00)
Accumulated deficit	(56,841.00)	(41,033.00)
<b>Total shareholders' equity</b>	<b>579,681</b>	<b>593,135</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$7,496,647</b>	<b>\$7,232,078</b>

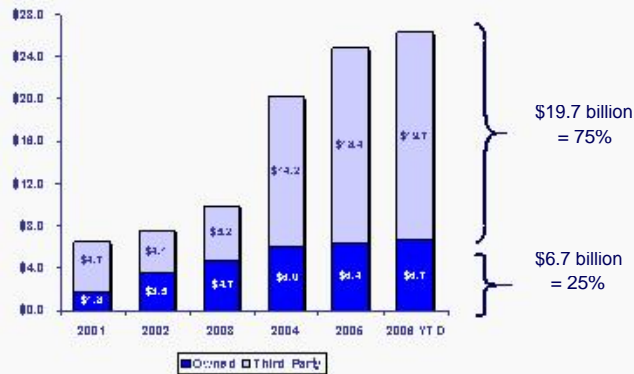
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# PORTFOLIO SUMMARY

Data as of June 30, 2006

Servicing Portfolio



Volume & Channel Mix						
	2001	2002	2003	2004	2005	YTD 2006
Volume (\$B)	\$2.33	\$2.30	\$2.84	\$3.49	\$3.35	\$1.66
Wholesale	41.4%	45.1%	41.3%	42.9%	45.1%	47.9%
Retail	19.2%	28.1%	26.8%	27.6%	21.3%	18.7%
Correspondent - Flow	15.2%	16.6%	24.6%	24.3%	28.0%	25.2%
Correspondent - Bulk	24.2%	10.2%	7.2%	5.2%	5.6%	1.1%
Conduit	0.0%	0.0%	0.0%	0.0%	0.0%	7.2%
	100%	100%	100%	100%	100%	100%

Top 5 States by Funded Volume		
Funded 1/1/06-6/30/06		
State	Loan Amount - Original	Percent
CA	277,526,308	16.20%
MD	242,968,421	14.18%
FL	199,982,031	11.67%
NY	143,197,701	8.36%
VA	116,998,998	6.83%
		57.24%
Funded volume includes conduit loans		

# QUARTERLY PRODUCTION STATISTICS

Second Quarter 2006

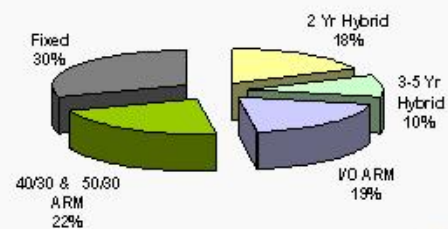
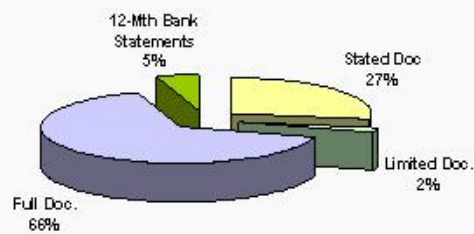
Data as of June 30, 2006

Credit Score	Funded Volume (000's)*	% of Total Funded Volume	WAC - Fixed	WAC - ARM	WA CREDIT SCORE	WA CLTV
> 650	\$150,521	18.80%	7.94%	8.14%	686	80.38%
601-650	\$281,667	35.18%	8.19%	8.14%	623	80.35%
551-600	\$277,824	34.70%	8.43%	8.56%	578	77.98%
526-550	\$57,566	7.19%	9.48%	9.14%	539	75.57%
< 525	\$32,586	4.07%	10.10%	9.67%	511	70.90%
N/A**	\$560	0.07%	N/A	10.13%	N/A	68.20%
<b>Totals</b>	<b>\$800,645</b>	<b>100%</b>	<b>8.30%</b>	<b>8.50%</b>	<b>608</b>	<b>78.80%</b>

\*Funded volume excludes conduit loans

\*\*These loans have unavailable credit scores

WA = Weighted Average



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# SAST COLLATERAL SUMMARY\*

Data as of June 30, 2006

	SAST 2003-04	SAST 2004-05	SAST 2005-06	SAST 2006-07	SAST 2007-08	SAST 2008-09	SAST 2009-10	SAST 2010-11	SAST 2011-12
Fixed vs ARM%	73%	73%	73%	73%	73%	73%	73%	73%	73%
Loan Count	2,400	934	934	2,092	720	2,153	9,182	15,933	5,380
Sched Bal	499,525,330	140,485,389	899,934,449	99,508,981	102,488,119	499,919,000	150,341,529	249,187,503	999,949,097
WFO Avg Credit Score	80.930	81.933	80.933	80.934	81.013	80.933	80.933	81.224	80.933
WFO Avg Coupon	7.74	7.73	7.73	8.25	8.25	8.24	8.42	8.13	8.25
WFO Avg Gross Margin	8.12	8.12	8.12	8.22	8.22	8.22	8.22	8.22	8.25
WFO LTV	79.4	79.87	79.50	79.09	79.50	79.99	79.38	79.51	79.51
WFO CLTV	32.5	31.71	31.45	32.23	31.92	31.93	32.87	31.82	31.78
WFO CLTV Original Adj	79.4	79.49	79.75	79.09	79.7	79.55	79.38	79.51	79.51
LTVY 80%	93.41%	93.51%	93.49%	93.73%	93.88%	93.89%	93.88%	92.75%	91.49%
LTVY 90%	83.32%	83.1%	83.85%	83.29%	83.61%	83.51%	83.55%	83.79%	83.11%
LTVY 95%	91.8%	91.1%	91.22%	91.51%	91.79%	91.51%	91.92%	91.31%	90.8%
Avg Scheduled Balance	207,953.19	147,341.89	190,904.82	195,829.50	141,197.90	131,231.09	199,535.19	159,387.03	189,597.88
Max Schedule Balance	1,000,000	999,491.84	1,000,000	1,247,542.34	647,984.51	1,247,542.34	1,000,000	1,925,000.00	1,925,000
Balloon Loan %	20.31%	15.73%	19.53%	21.31%	11.33%	19.30%	29.20%	19.90%	25.74%
4000 Balloon %	20.78%	14.25%	19.93%	21.31%	11.23%	19.73%	29.20%	19.90%	25.74%
% Shared 2nds	18.60%	3.50%	14.88%	13.09%	7.91%	18.00%	18.42%	5.81%	13.73%
% Second Lien	0.00%	1.01%	0.22%	0.00%	1.02%	0.21%	0.00%	0.00%	0.00%
WFO Avg Periodic Cap	1.00		1.00	1.05		1.05	1		1
WFO Avg Life Cap	8.07		8.07	8.11		8.11	8.01		8.01
WFO Avg D/FI Total	40.34	99.73	40.35	40.99	99.52	40.99	41.34	99.28	40.8
WFO Avg Initial Cap	2.30		2.30	2.34		2.34	2.39		2.39
WFO Avg Life Floor	8.43		8.43	8.7		8.7	8.7		8.8
WFO Avg Life Ceiling	19.3		19.3	14.95		14.95	14.49		14.49
Total D/FI 40%	82.31%	99.91%	80.83%	80.91%	49.93%	50.85%	89.93%	92.37%	80.92%
Total D/FI 50%	9.92%	9.94%	4.93%	4.89%	4.00%	4.50%	7.73%	8.29%	7.95%
% Full Doc	82.21%	79.89%	86.99%	80.38%	79.84%	89.43%	80.79%	71.99%	89.92%
% Stated Doc	92.88%	18.65%	29.70%	92.89%	18.77%	29.73%	91.42%	17.93%	27.92%
% Stated Mags Camera	11.89%	7.65%	10.78%	11.19%	7.09%	10.94%	14.97%	11.71%	14.15%
% Purchase	20.89%	5.68%	17.90%	13.74%	8.52%	17.89%	19.71%	5.02%	18.09%
% Cash Out	74.89%	39.74%	77.81%	78.81%	38.77%	79.51%	78.90%	39.59%	79.72%
% Owner Occ	95.83%	97.73%	95.93%	95.49%	96.78%	95.53%	99.82%	98.90%	94.41%
% Second Home	0.94%	0.94%	0.47%	0.75%	0.75%	0.75%	0.88%	0.97%	0.74%
% Investor	9.99%	1.99%	9.99%	9.77%	9.93%	9.89%	9.51%	2.99%	4.94%
% D	94.57%	1.95%	27.41%	27.82%	1.38%	22.50%	29.83%	1.91%	22.78%
% with PPAF Penalty	82.93%	31.62%	88.98%	59.47%	79.84%	82.93%	57.99%	79.22%	82.18%
Single Family All Del	72.70%	39.55%	75.03%	70.98%	38.07%	72.98%	74.49%	38.99%	78.09%
Single Family Del	70.88%	32.71%	79.48%	69.38%	79.28%	70.30%	72.00%	79.99%	79.21%
A as Ratio	93.87%	90.45%	90.08%	93.59%	90.51%	87.30%	93.47%	90.88%	93.02%
A1	85.91%	71.83%	81.77%	81.44%	70.22%	89.24%	89.92%	70.44%	81.95%
A2	12.11%	11.99%	11.94%	12.01%	11.81%	12.79%	11.80%	12.99%	11.34%
A3	10.85%	7.43%	9.98%	12.19%	9.89%	11.42%	10.47%	7.90%	9.90%
B	9.77%	2.94%	9.57%	5.14%	4.54%	5.02%	4.79%	9.78%	4.90%
C	9.37%	2.99%	9.99%	4.29%	2.40%	9.31%	9.94%	2.94%	9.94%
D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

\*At settlement

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# CREDIT SCORE MIGRATION

Data as of June 30, 2006

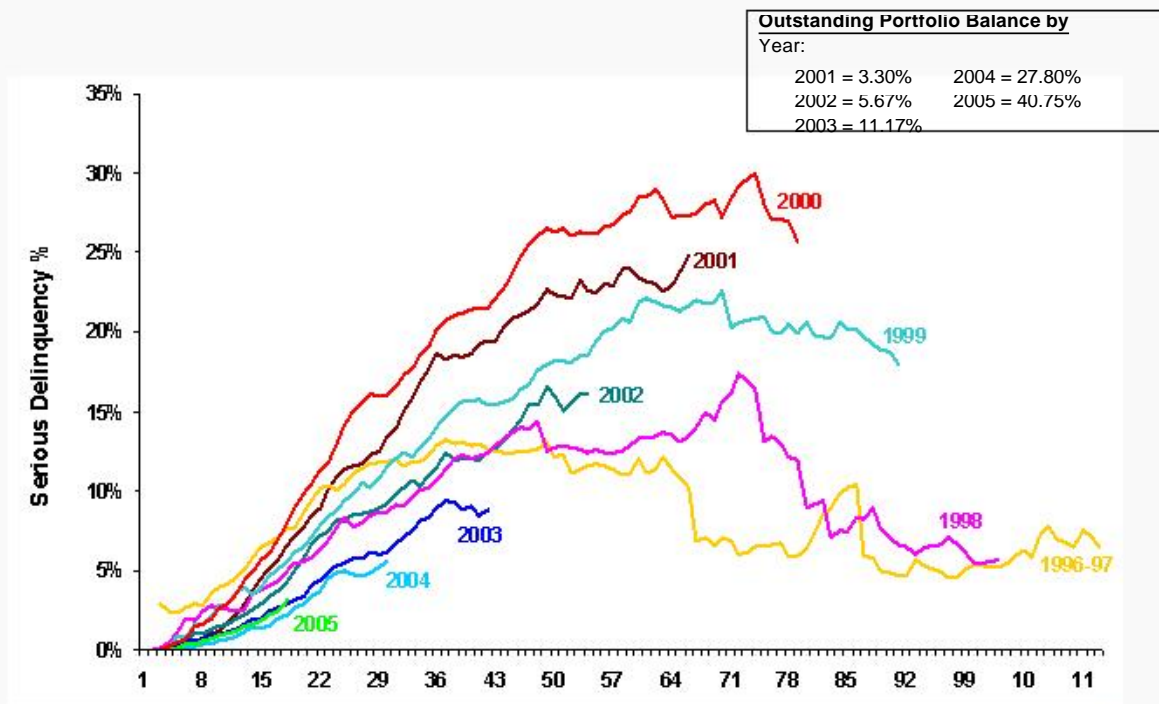
Credit Score	2006	2005	2004	2003	2002	2001	2000
WTD Avg Credit Score	608	614	622	618	605	593	580
> 650	19.16%	24.98%	31.11%	44.32%	29.19%	17.94%	6.61%
601-650	34.64%	33.90%	30.94%	20.56%	24.56%	18.48%	11.19%
551-600	34.19%	28.02%	23.35%	23.22%	29.28%	35.65%	40.93%
526-550	7.32%	7.22%	7.84%	7.35%	11.08%	16.60%	23.06%
< 525	4.62%	5.74%	6.40%	4.16%	5.89%	11.33%	18.21%
Other	0.06%	0.13%	0.36%	0.39%	-	-	-

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# STATIC POOL DELINQUENCY

Data as of June 30, 2006

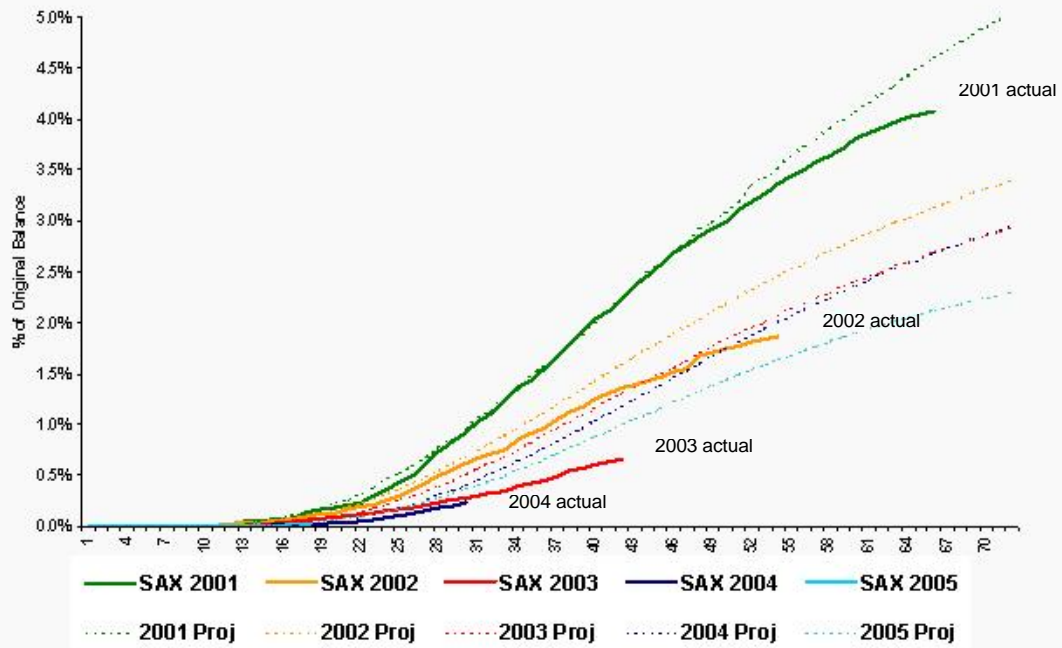


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# STATIC POOL LOSSES BY FUNDED YEAR

Data as of June 30, 2006

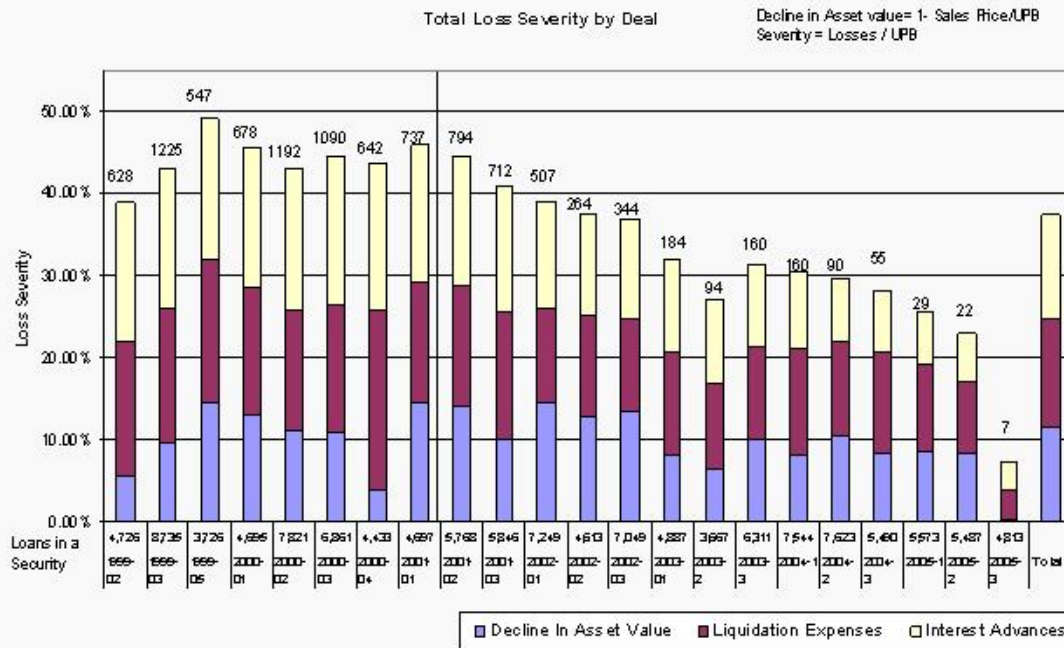


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# LOSS SEVERITY

Data as of June 30, 2006



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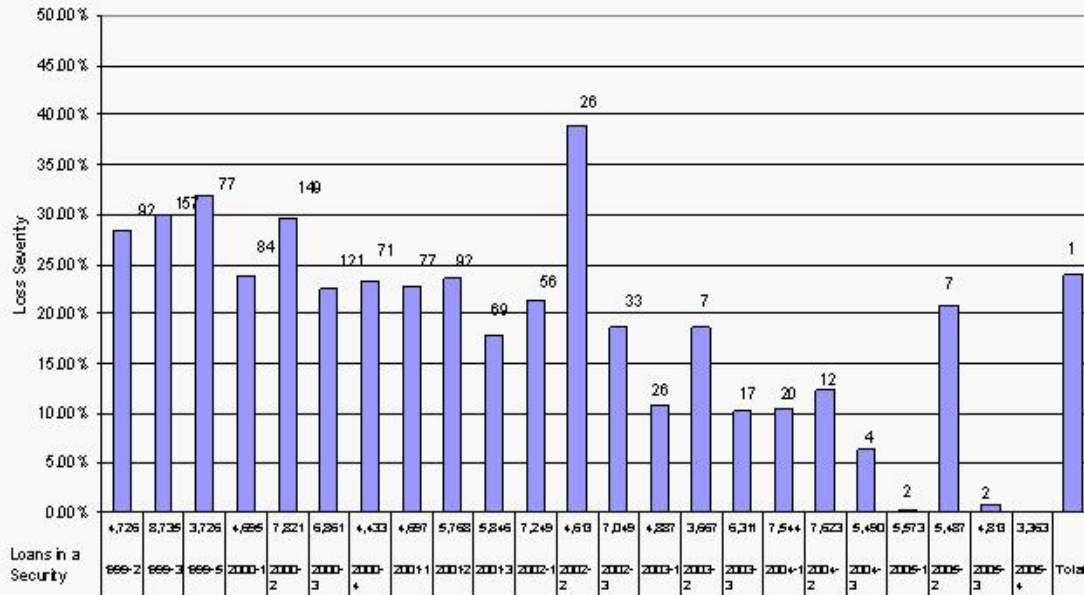


# LOSS SEVERITY Con't

Data as of June 30, 2006

**Total Loss Severity by  
Top 5 States Funded 1/1/06-6/30/06**

Decline in Asset value= 1- Sales Price/UPB  
Severity = Losses / UPB



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## □ Underwriting

- 3 operations centers – VA, TX, CA
- Automated U/W system
- Automated review for borrower fraud using Appintell's DISSCO system
- Automated review of property valuation using Appintell's VALVERIFY system
- Automated review of appraisers against bad appraiser list
- Full file review by underwriters (post automated u/w approval) to:
  - Identify misrepresentation
  - Review appraisals
  - Ensure satisfaction of conditions
- Exceptions to Automated U/W system:
  - Approximately 20% of production (Saxon tracks # exceptions and will adjust pricing on # of them)
  - Require countersignature from senior underwriters or management
  - Performance monitoring drives pricing engine rate adjustments

# QUALITY CONTROL

## ❑ Post Funding Quality Control

- Adversely selects 10+% of closed loans submitted for purchase based upon LTV ratio, seller, geographic location, product and collateral
- Use a statistically based software, Cogent, which allows an adverse selection while maintaining a statistical sampling of the entire month's production.
- Subjects audited files to re-verification of all major underwriting components such as income, employment, collateral value and cash to close.

## ❑ DRIP

- Monthly meetings of senior managers of Underwriting, QC and Servicing
- Review loans recommended for foreclosure to determine any adverse trends

## ❑ Investigation Unit

- Performs pre-funding investigations of loans referred by underwriting
- Performs 100-150 investigations a month on average
- Reviews 100% of early payment default loans (loans which are 60 days delinquent within the first 90 days) for material misrepresentation/fraud
- Performs investigations on loans referred by the DRP Committee at SMSI and every first and second payment default

# CONDUIT PROGRAM (NON-SAST)

## ❑ Sellers

- Minimum tangible net worth of \$1,000,000
- Minimum of (3) years experience in mortgage origination
- \$100MM in originations in prior 12 Months
- Warehouse lines of at least \$10MM

## ❑ Pools:

- Minimum Pool size of \$10MM
- Target \$20MM to \$100MM
- Program provides a new infrastructure that would allow SAX to be competitive on pools much larger than \$100MM if desired

## ❑ Cost Structure:

- Mostly a variable cost structure: Outsourcing the underwriting and post-closing functions
- Provides for an easy transition from a supplemental strategy to an opportunistic strategy as market conditions dictate



## CONDUIT PROCESS – MITIGATING RISK

- ☐ Full analysis of seller guidelines prior to bid for risk-based pricing
- ☐ Exclusion of high cost loans, LTV's over 100%, negative amortization loans etc.
- ☐ 100% re-underwriting on loan pool by third-party contract underwriters
- ☐ Fraud Prevention:
  - 100% borrower fraud review and scoring using Appintell's electronic fraud prevention tool (DISSCO).
  - Additional reviews on loans with DISSCO scores that indicate a high risk for borrower fraud
- ☐ Property Valuation:
  - 100% property valuation review using Appintell's automated valuation tool (VALVERIFY)
  - Collateral Risk Solutions (CRS) property valuation for 1) Saxon QC targeted areas and 2) High risk VALVERIFY scores
- ☐ 100% compliance review of legal docs and disclosures
- ☐ Expected loss forecasting through LPS Risk Model, and Saxon's own performance data warehouse



# SERVICING

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# RATING AGENCY SUMMARY

## Fitch Ratings

### Rating:

<u>Category</u>	<u>Rating</u>
Rated IBCA	RPS2+

### Commentary:

- Continued to refine servicing platform through operational and technological improvements which enhanced efficiencies and productivity
- Continued to build strong management team
- Restructured management and workflows in servicing center
- Effective loan administration practices
- Commitment to technology enhancements
- Reliable default management practices

## Standard and Poor's

### Ratings:

<u>Category</u>	<u>Rating</u>
Residential Mortgage Subprime Servicer	Above Average

Residential Mortgage Special Servicer	Average
---------------------------------------	---------

### Commentary:

- Solid management
- Sound application of technology
- Effective and dynamic training programs
- Effective borrower contact and timeline management
- Satisfactory oversight of outsourced functions
- Corporate credit rating desirable

# RATING AGENCY SUMMARY Con't

## Moody's Investor Service

### Rating:

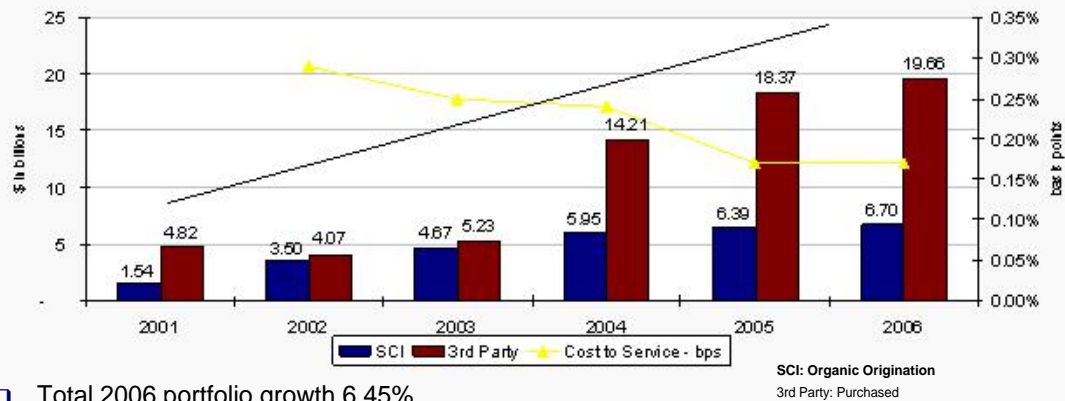
<u>Category</u>	<u>Rating</u>
Primary Servicer of Subprime Loans	SQ2
Special Servicer	SQ2-

### Commentary:

- ☐ Strong collection abilities
- ☐ Above average loss mitigation results
- ☐ Above avg. foreclosure and REO timeline management
  - Review of borrower's collection history at 75th day of delinquency
- ☐ Effective borrower contact and timeline management
  - Contact through behavioral score
  - NICE call recording technology
  - Postal tracking of borrower payments

# MORTGAGE LOAN SERVICING

Data as of June 30, 2006



- ❑ Total 2006 portfolio growth 6.45%
- ❑ Portfolio Performance: Total Portfolio
  - Delinquency 60+: 7.95%
  - Loss Severity: 38.86%
- ❑ Cost to service 17 bps (2Q06)
- ❑ Annualized employee turnover rate 27.98%

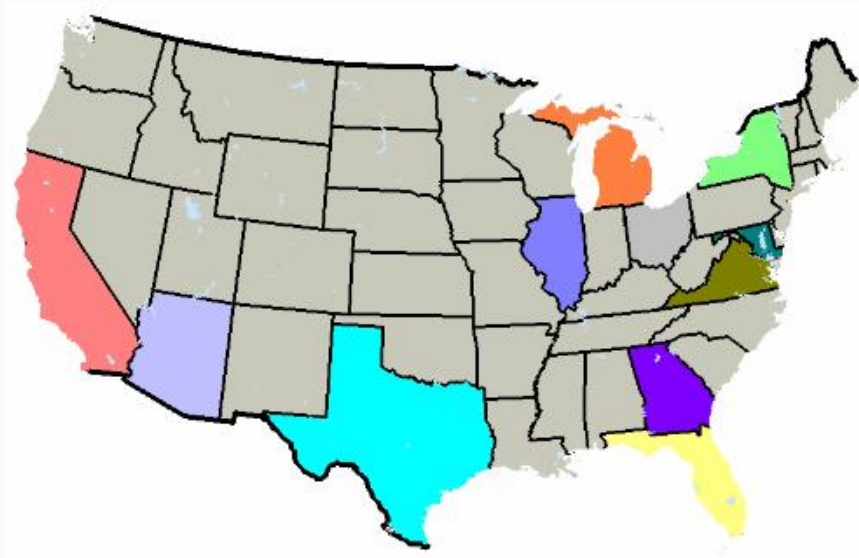
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# GEOGRAPHIC SERVICING CONCENTRATION

## TOTAL PORTFOLIO

Data as of June 30, 2006



### Top 10 States

(based on Total Portfolio)

1. California 28.55%

2. Florida 9.00%

3. New York 4.64%

4. Texas 4.47%

5. Illinois 3.67%

6. Maryland 3.64%

7. Virginia 3.08%

8. Georgia 3.00%

9. Michigan 3.00%

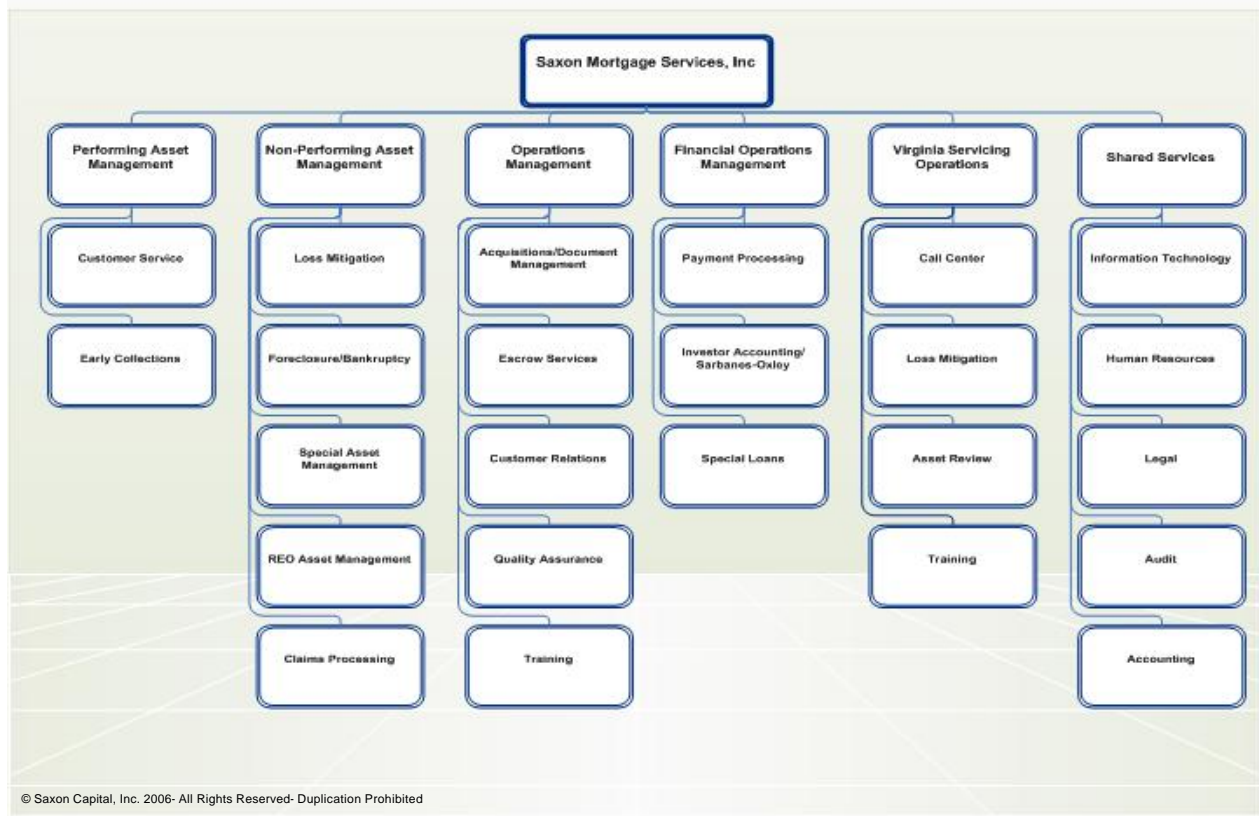
10. Arizona 2.83%

- Top 10 states equal 65.88% of servicing portfolio
- Bottom 20 states equal 4.55% of servicing portfolio

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# SERVICING STRUCTURE



# CUSTOMER SERVICE & EARLY COLLECTIONS

## Predictive Modeling

- ❑ Calling Campaigns
  - The Call Center uses the Freddie Mac Early Indicator Scores product monthly on the entire 0 – 59 portfolio
  - The scores range from 000 - 099 with the lower numbers having a higher probability of serious delinquency
  - The current month loans are queued in the auto dialing campaigns with higher risk loans taking priority in the dialing order as follow:
    - Day 3: 000 – 006
    - Day 10: 007 – 044
    - Day 17: 045 – 099
  - The Call Center also risk weights geographic areas and sorts the call campaigns by Unpaid Principal Balance (UPB)
- ❑ Efficiency Gains
  - The scoring and dialing matrix provides SMSI with efficiency gains by focusing on loans with higher risk of delinquency and higher service levels by not contacting those borrowers who have a history of timely payment

## Successes

- ❑ Cure Ratios
  - Current Month: 94.21% (2006Q2)
  - 2 Month: 75.37% (2006Q2)
- ❑ Answer Rate: 98.08% (2006Q2)
- ❑ Successful customer service survey
- ❑ Higher customer service level
- ❑ Lower employee turnover for Texas call center – 22.84% voluntary turnover (2006Q2)

## Looking Forward

- ❑ Customers can create a work-out plan via the web and Integrated Voice Response (IVR)
- ❑ Speech Recognition and Touch Tone IVR upgrade
- ❑ Centralized Command Center for real-time adherence and traffic monitoring



# LOSS MITIGATION

## Department Structure

- ❑ The Loss Mitigation department is focused on curing delinquencies through aggressive collection efforts and workout options.
- ❑ Staffing
  - 5 Loss Mitigation Teams
    - All staff are skilled in managing delinquency types from 60 to 120+ days
  - Workout Team
    - Specializes in all workout options as foreclosure alternatives
  - Loan Recovery Specialist
    - Focuses on 2<sup>nd</sup> lien monitoring, collections, and repurchases
  - Loan Support Team
    - Supports Default Resolution Plan (DRP), Broker Price Opinion (BPO) orders, property preservation, code compliance, and insurance claims
  - Administrative Support Team
    - Posting exception payments
    - Prepare reinstatement letters and repayment plans
    - Imaging
- ❑ Delinquency is tracked in buckets by UPB and loan count
  - 60 – 89 Days
  - 90 – 119 Days
  - 120+ Days

- ❑ Workout Options
  - Forbearance and Repayment Plans
  - Modifications
  - Short Sales and Assumptions
  - Deeds-in-Lieu
  - Target staffing: 135 loans per FTE
    - Actual: 142 loans per FTE (2006Q2)
- ❑ Incentive Structure
  - Monthly Incentive Breakdown
    - 28% Delinquency (Team)
    - 45% Cure Rate (Team)
    - 15% Answer Rate (Team)
    - 12% Quality Control (Individual)

## **Management Levels**

- ❑ Average of 16+ years of industry experience in the Loss Mitigation management team

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## **Predictive Modeling**

- ❑ Early Indicator Scores are utilized in daily collections to identify higher risk delinquencies and to delay foreclosure referrals for lower risk borrowers.
  - Foreclosure referrals are delayed according to scores:
    - EIS below 200 (higher risk) refer at 76 days past due
    - EIS above 200 (lower risk) refer at 90 days past due
  - Allows for increased cure rates on lower risk loans prior to referral
  - Improves probability of cures by delaying advances

## **Titanium Solutions**

- ❑ Third party resource used to provide face-to-face borrower contact and skip-tracing specifically, targeting no-contact loans
  - Improved contact results for no-contact loans
  - Submission of financial packages
  - Success rate of 42% on loans submitted during 2005

# LOSS MITIGATION Con't

## **eDRP (Default Resolution Plan)**

- ❑ A web-based proprietary system that provides access to information used in monthly Risk Management meetings for pre-foreclosure reviews
  - Automated recovery analysis
    - Review
      - Loss AnalysisProperty Valuation
      - Credit Report/SummaryHUD-1 Closing Statement
  - Meeting attendees include Underwriting Management, Risk Management, Collections, and the Loss Mitigation staff
  - Specific reviews are targeted for loans with a variance of 25% or more between origination appraised value and current value

## **Saxononline.com**

- ❑ Our customers have the ability to submit financial packages on-line

## **Venture Mailing**

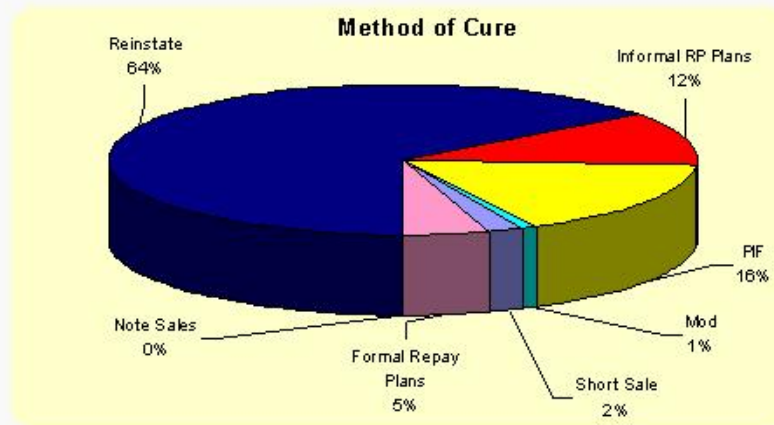
- ❑ Brochures with financial packages are mailed on loans that roll 90 days delinquent on first day of each month

## **FastBatch – FastData Suite of Information Solutions**

- ❑ A vendor-based system used to compile information from national databases for use in skip-tracing
  - Returns most current information available
  - Swift return of data – generally within 5 hours
  - Eliminates manual skip-trace work

# LOSS MITIGATION Con't

Data as of June 30, 2006



## Results

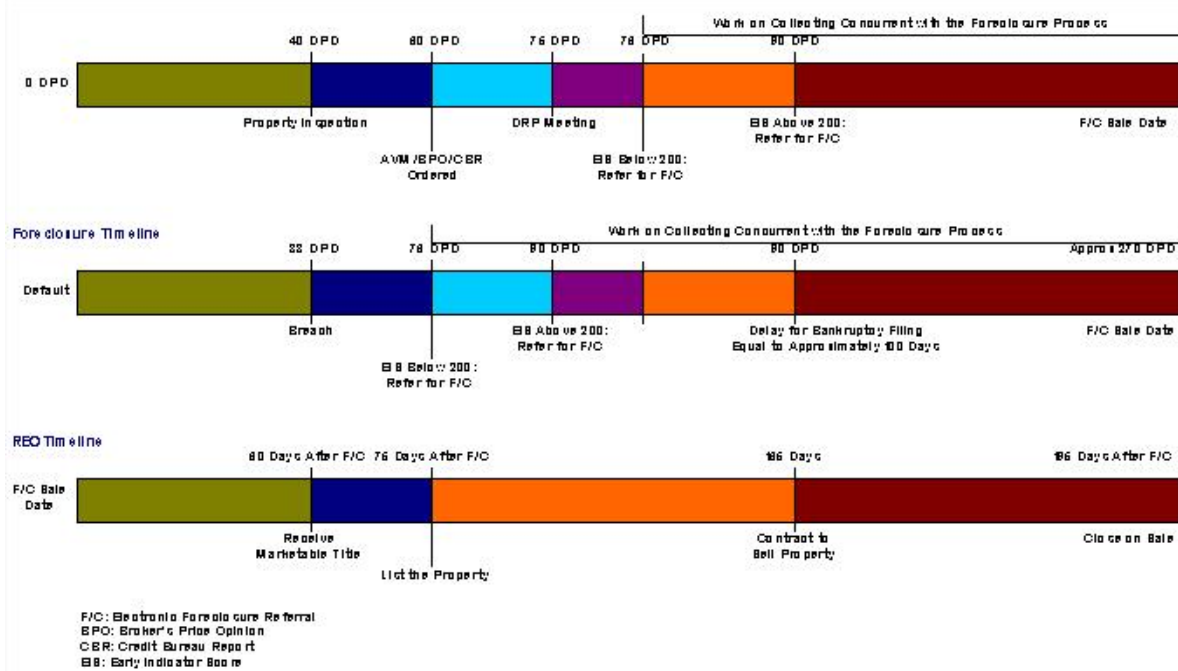
Cure Rates (based on UPB)

	2006 YTD	2005	2004	2003	2002
<b>60-89 Days</b>	56.76%	54.33%	58.38%	57.62%	54.78%
<b>90-119 Days</b>	41.83%	39.19%	44.04%	35.00%	34.80%
<b>120-149 Days</b>	28.81%	25.19%	26.44%	23.87%	25.23%
<b>150+ Days</b>	13.18%	13.47%	12.14%	10.08%	11.82%

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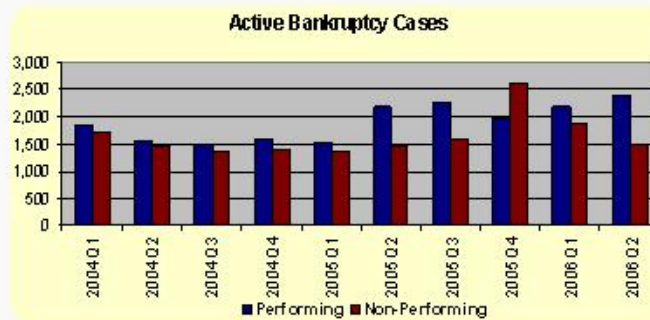
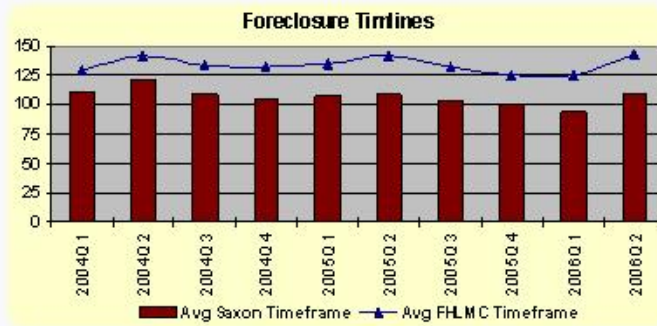


# TIMELINES



# FORECLOSURE/BANKRUPTCY

Data as of June 30, 2006

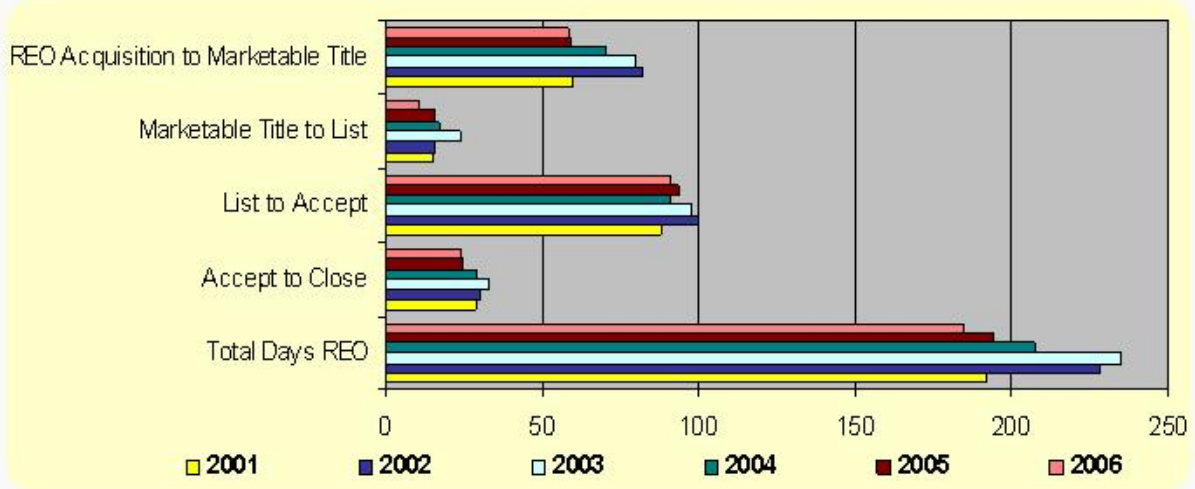


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# REO TIMELINE

Data as of June 30, 2006



	2001	2002	2003	2004	2005	2006
Average Days on Market	117	130	131	120	123	115

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# SUMMARY

