

REO to Rental: Why A Bulk Sales Program Is Necessary

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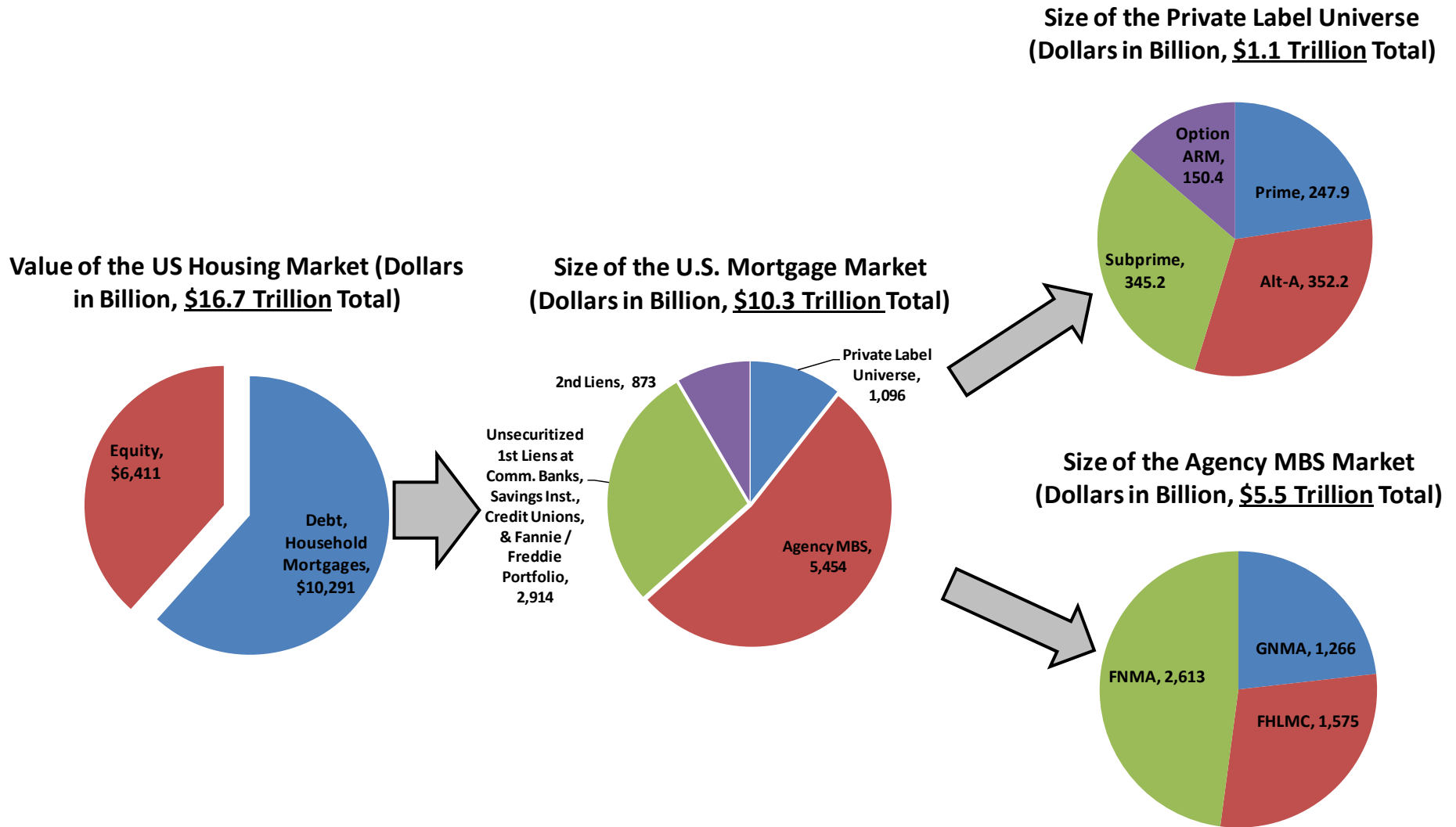
National Association of Realtors
Washington, DC
April 24, 2012



Amherst[®] Securities Group LP

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The US Mortgage Market Size Snapshot



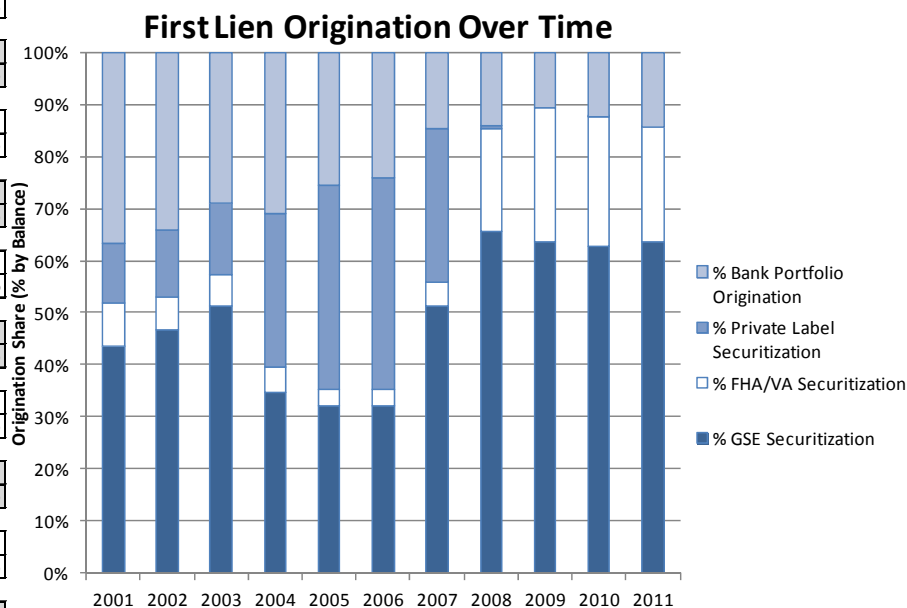
Source: Federal Reserve as of Q4 2011, Fannie Mae, Freddie Mac, Ginnie Mae, CoreLogic, 1010Data, Amherst Securities as of Dec 2011

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Origination And Securitization Volumes

| | Total | GSE Securitization | FHA/VA Securitization | Total GSE and FHA/VA Securitization | Private Label Securitization | Bank Portfolio Origination |
|-----------------------------|------------|--------------------|-----------------------|-------------------------------------|------------------------------|----------------------------|
| Estimated originations 2001 | \$ 2,215.0 | \$ 965.0 | \$ 182.2 | \$ 1,147.2 | \$ 253.8 | \$ 813.0 |
| % of Total Origination | 100.0% | 43.6% | 8.2% | 51.8% | 11.5% | 36.7% |
| Estimated originations 2002 | \$ 2,885.0 | \$ 1,347.5 | \$ 182.6 | \$ 1,530.1 | \$ 368.7 | \$ 983.6 |
| % of Total Origination | 100.0% | 46.7% | 6.3% | 53.0% | 12.8% | 34.1% |
| Estimated originations 2003 | \$ 3,725.0 | \$ 1,912.4 | \$ 218.5 | \$ 2,130.9 | \$ 506.6 | \$ 1,083.0 |
| % of Total Origination | 100.0% | 51.3% | 5.9% | 57.2% | 13.6% | 29.1% |
| Estimated originations 2004 | \$ 2,572.0 | \$ 892.3 | \$ 126.4 | \$ 1,018.7 | \$ 754.5 | \$ 794.3 |
| % of Total Origination | 100.0% | 34.7% | 4.9% | 39.6% | 29.3% | 30.9% |
| Estimated originations 2005 | \$ 2,753.0 | \$ 879.1 | \$ 85.6 | \$ 964.7 | \$ 1,078.1 | \$ 701.9 |
| % of Total Origination | 100.0% | 31.9% | 3.1% | 35.0% | 39.2% | 25.5% |
| Estimated originations 2006 | \$ 2,553.0 | \$ 816.9 | \$ 83.2 | \$ 900.1 | \$ 1,033.3 | \$ 611.2 |
| % of Total Origination | 100.0% | 32.0% | 3.3% | 35.3% | 40.5% | 23.9% |
| Estimated originations 2007 | \$ 2,076.0 | \$ 1,062.0 | \$ 98.6 | \$ 1,160.6 | \$ 610.6 | \$ 304.7 |
| % of Total Origination | 100.0% | 51.2% | 4.7% | 55.9% | 29.4% | 14.7% |
| Estimated originations 2008 | \$ 1,371.0 | \$ 899.8 | \$ 269.0 | \$ 1,168.8 | \$ 8.5 | \$ 193.7 |
| % of Total Origination | 100.0% | 65.6% | 19.6% | 85.3% | 0.6% | 14.1% |
| Estimated originations 2009 | \$ 1,738.0 | \$ 1,106.8 | \$ 446.2 | \$ 1,553.0 | \$ - | \$ 185.0 |
| % of Total Origination | 100.0% | 63.7% | 25.7% | 89.4% | 0.0% | 10.6% |
| Estimated originations 2010 | \$ 1,522.0 | \$ 953.0 | \$ 378.9 | \$ 1,331.9 | \$ 0.2 | \$ 189.9 |
| % of Total Origination | 100.0% | 62.6% | 24.9% | 87.5% | 0.0% | 12.5% |
| Estimated originations 2011 | \$ 1,308.0 | \$ 897.0 | \$ 285.0 | \$ 1,182.0 | \$ 0.7 | \$ 125.3 |
| % of Total Origination | 100.0% | 68.6% | 21.8% | 90.4% | 0.1% | 9.6% |



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Current State of the Market: Approximately 9 Million Homes in Jeopardy of Defaulting

| DQ Status | Number of Loans | % of Loans | Total Balance | % by Balance | WA MTM LTV | 3Mo cTr | 3Mo vPr | 3Mo D/TV |
|---------------------|-------------------|------------|--------------------------|--------------|------------|---------|---------|----------|
| NPL | 4,174,107 | 8.1% | 855,089,711,076 | 9.6% | 115.9 | - | - | - |
| RPL | 3,888,347 | 7.5% | 670,767,619,120 | 7.5% | 104.6 | 43.3% | 2.7% | 94.1% |
| APL >120 MTM LTV | 2,121,415 | 4.1% | 415,022,816,217 | 4.7% | 147.5 | 11.9% | 7.9% | 60.0% |
| APL 100-120 MTM LTV | 4,594,242 | 8.9% | 897,954,242,706 | 10.1% | 106.9 | 6.5% | 12.4% | 34.4% |
| APL <=100 MTM LTV | 36,834,367 | 71.4% | 6,062,419,526,731 | 68.1% | 69.5 | 2.2% | 21.3% | 9.4% |
| Grand Total | 52,528,555 | | 9,057,044,230,684 | | | | | |

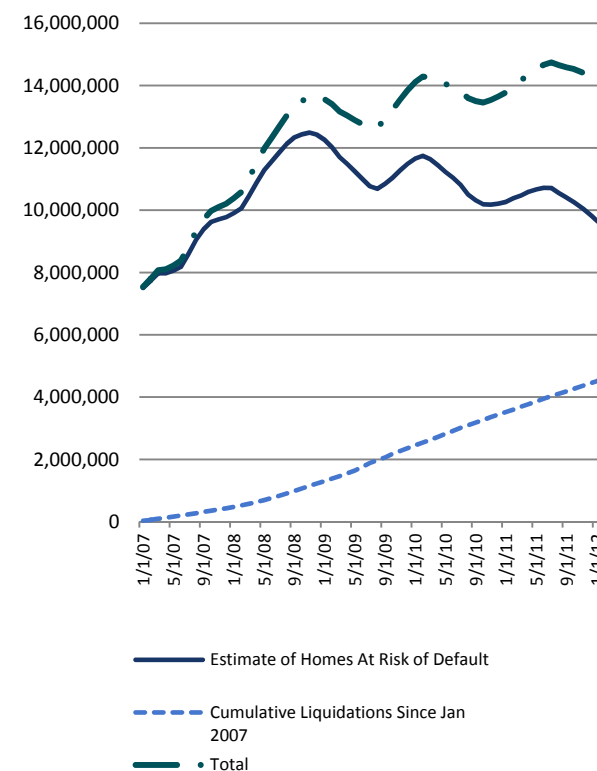
| DQ Status | Total Number of Loans | Estimated Default Rate | | Number of Homes in Jeopardy | | |
|---------------------|-----------------------|------------------------|---------------------|-----------------------------|---------------------|------------------|
| | | Lower Bound Estimate | Reasonable Estimate | Lower Bound Estimate | Reasonable Estimate | |
| NPL | 4,174,107 | 80% | 90% | 3,339,285 | 3,756,696 | |
| RPL | 3,888,347 | 40% | 55% | 1,555,339 | 2,138,591 | |
| APL >120 MTM LTV | 2,121,415 | 20% | 35% | 424,283 | 742,495 | |
| APL 100-120 MTM LTV | 4,594,242 | 10% | 15% | 459,424 | 689,136 | |
| APL <=100 MTM LTV | 36,834,367 | 4% | 5% | 1,473,375 | 1,841,718 | |
| | | | | Total | 7,251,706 | 9,168,637 |

Legend:

NPL = Non-Performing Loans cTr = Annualized Monthly New Default Transition Rate
 RPL = Re-Performing Loans vPr = Annualized Voluntary Prepay Rate
 APL = Always performing Loans D/TV = cTr / (cTr + vPr)

CoreLogic reports on approximately 60% of the non-PLS universe, which is extrapolated to the entire mortgage market
 Source: CoreLogic, 1010Data, Amherst Securities as of Mar 2012

How Far Along Are We In The Liquidation Process?



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Performance Of Non-Performing/Re-Performing Loans After 12 And 24 Months

Non-Performing Loans by Product Type

| Product | Category | Liquidated | Non-Performing | Re-Performing | Voluntarily Prepaid | Total | % Success (Prepaid + RPL) |
|------------|--------------------|------------|----------------|---------------|---------------------|--------|---------------------------|
| Prime | NPLs 12 Months Ago | 26.9% | 57.3% | 15.7% | 0.1% | 100.0% | 15.8% |
| | NPLs 24 Months Ago | 40.4% | 37.8% | 21.4% | 0.4% | 100.0% | 21.8% |
| Alt A | NPLs 12 Months Ago | 24.4% | 62.3% | 13.2% | 0.1% | 100.0% | 13.3% |
| | NPLs 24 Months Ago | 40.4% | 41.0% | 18.5% | 0.1% | 100.0% | 18.6% |
| Option ARM | NPLs 12 Months Ago | 24.0% | 66.3% | 9.7% | 0.0% | 100.0% | 9.7% |
| | NPLs 24 Months Ago | 40.5% | 46.6% | 12.9% | 0.0% | 100.0% | 12.9% |
| Subprime | NPLs 12 Months Ago | 17.0% | 65.8% | 17.2% | 0.0% | 100.0% | 17.3% |
| | NPLs 24 Months Ago | 28.9% | 47.8% | 23.2% | 0.1% | 100.0% | 23.2% |
| All | NPLs 12 Months Ago | 21.2% | 64.2% | 14.5% | 0.0% | 100.0% | 14.6% |
| | NPLs 24 Months Ago | 35.1% | 45.0% | 19.8% | 0.1% | 100.0% | 19.9% |

Re-Performing Loans by Product Type

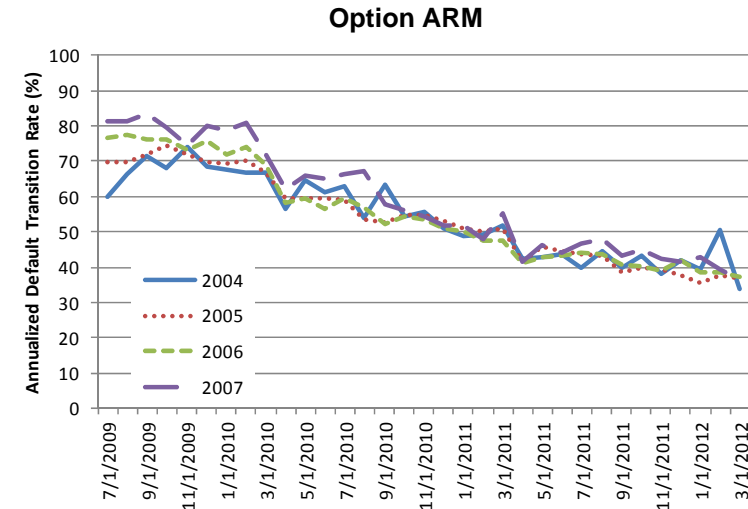
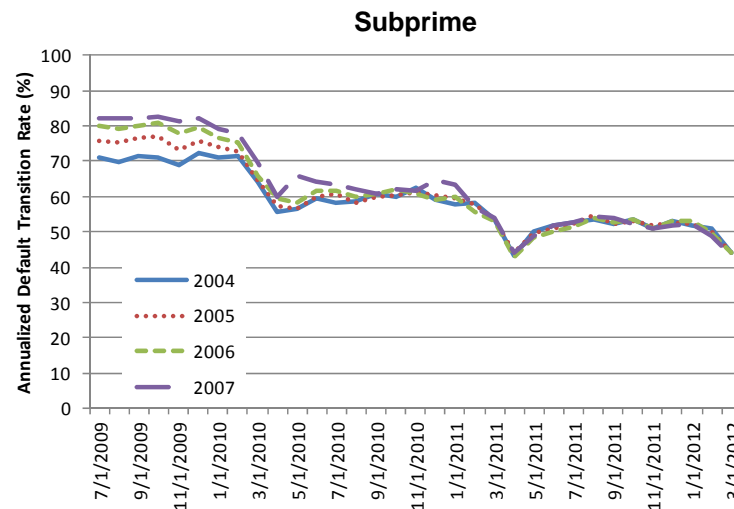
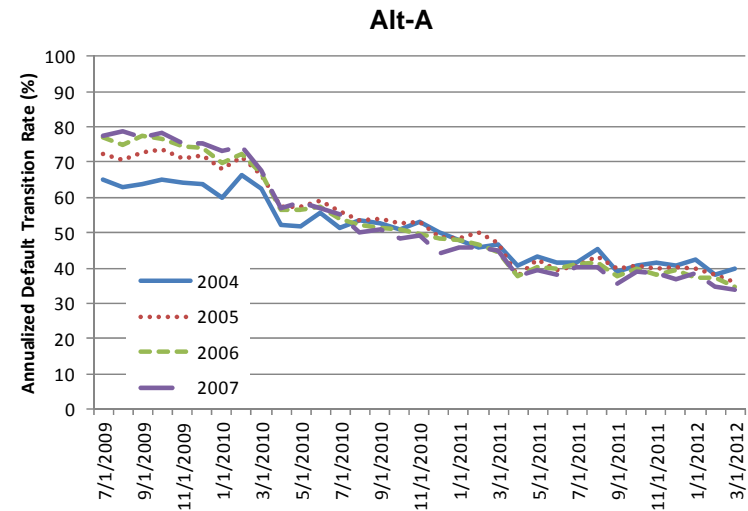
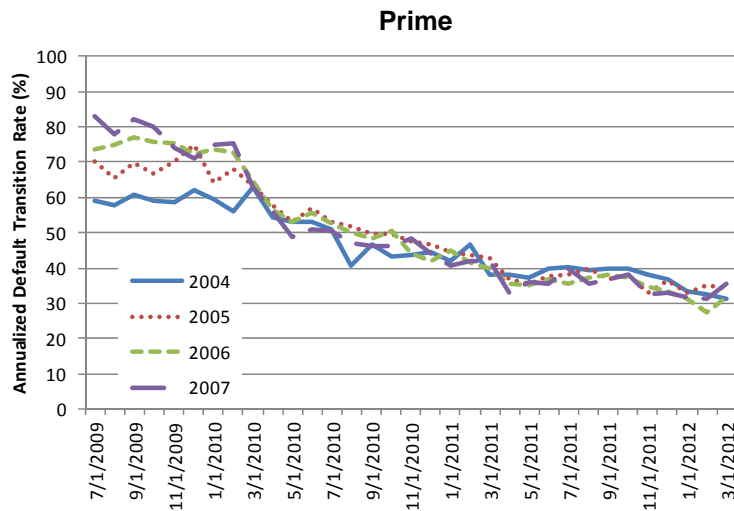
| Product | Category | Liquidated | Non-Performing | Re-Performing | Voluntarily Prepaid | Total | % Success (Prepaid + RPL) |
|------------|--------------------|------------|----------------|---------------|---------------------|--------|---------------------------|
| Prime | RPLs 12 Months Ago | 0.6% | 3.0% | 82.6% | 13.9% | 100.0% | 96.5% |
| | RPLs 24 Months Ago | 7.0% | 24.0% | 61.3% | 7.8% | 100.0% | 69.1% |
| Alt A | RPLs 12 Months Ago | 0.7% | 5.7% | 87.2% | 6.3% | 100.0% | 93.6% |
| | RPLs 24 Months Ago | 6.2% | 29.7% | 61.7% | 2.4% | 100.0% | 64.1% |
| Option ARM | RPLs 12 Months Ago | 1.2% | 13.3% | 83.3% | 2.3% | 100.0% | 85.5% |
| | RPLs 24 Months Ago | 7.4% | 36.7% | 54.9% | 1.0% | 100.0% | 55.9% |
| Subprime | RPLs 12 Months Ago | 0.7% | 8.4% | 87.1% | 3.8% | 100.0% | 90.9% |
| | RPLs 24 Months Ago | 4.5% | 33.3% | 60.5% | 1.7% | 100.0% | 62.1% |
| All | RPLs 12 Months Ago | 0.7% | 5.9% | 85.1% | 8.3% | 100.0% | 93.4% |
| | RPLs 24 Months Ago | 5.4% | 32.3% | 60.2% | 2.2% | 100.0% | 62.3% |

Source: CoreLogic, 1010Data, Amherst Securities as of Mar 2012

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Transition Rates of Re-Performers: 2004-2007 Vintages by Product Type



Source: CoreLogic, 1010Data, Amherst Securities

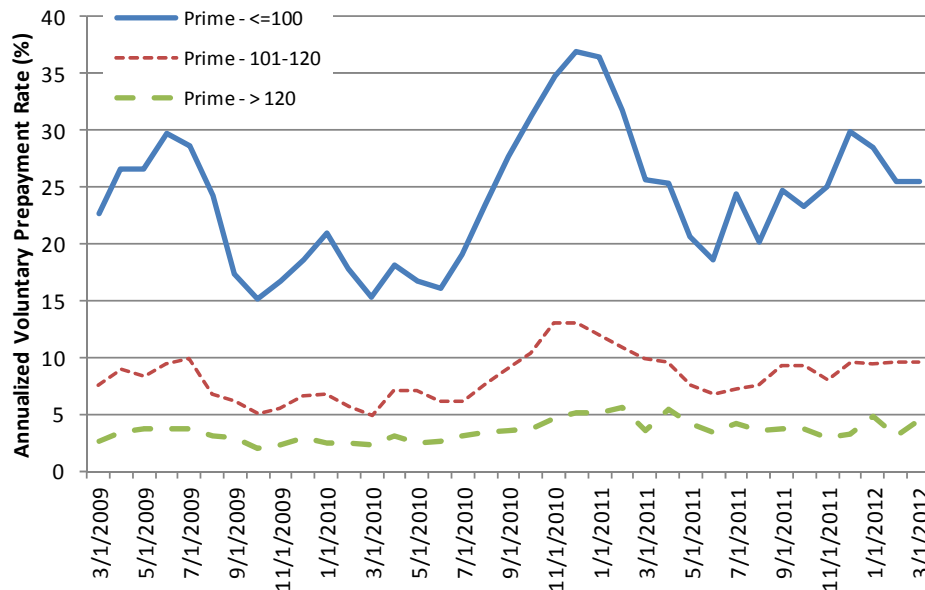
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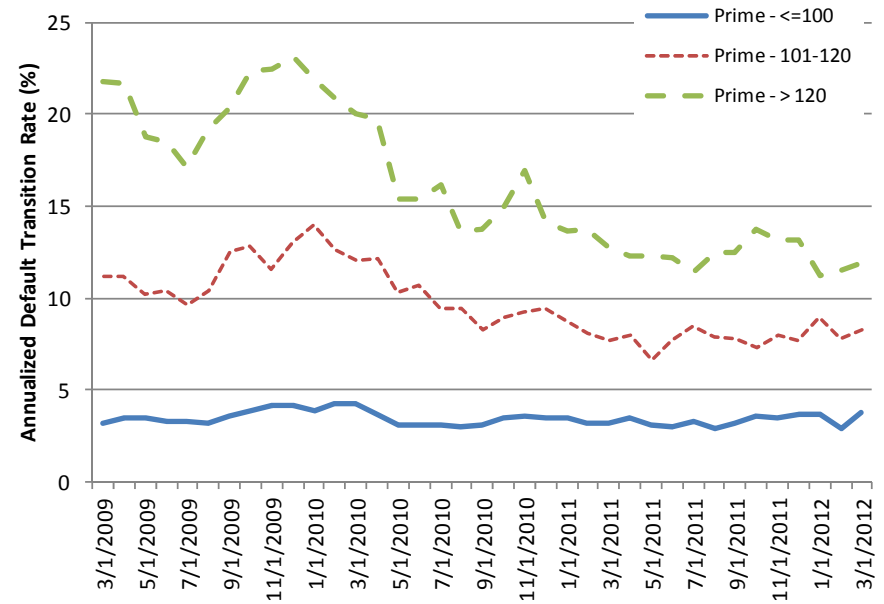


Equity Matters For Both Prepay Speeds and Default Transitions

Prime Fixed Rate Voluntary Annualized Prepayment Speeds by LTV



Prime Fixed Rate Annualized Default Transition Rates by LTV



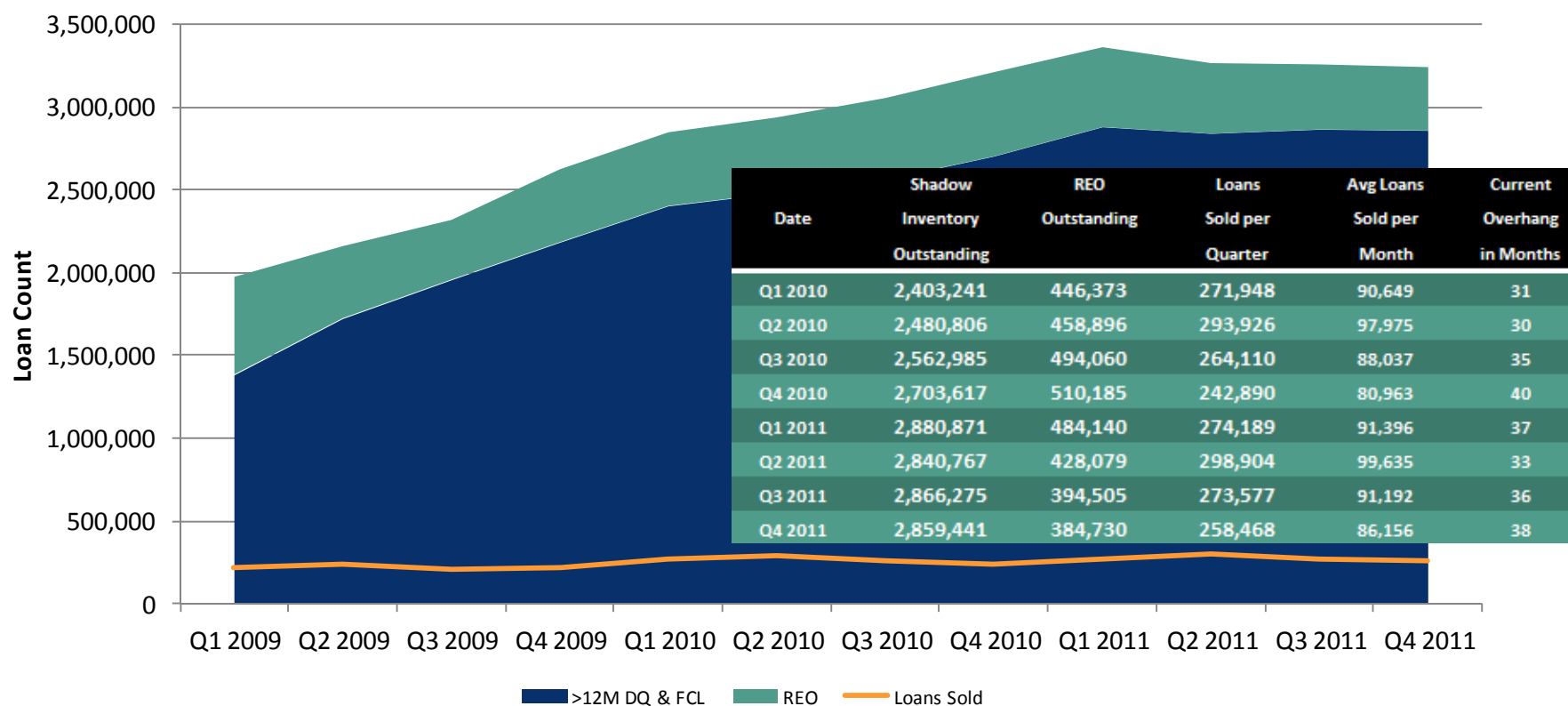
Source: CoreLogic, 1010Data, Amherst Securities

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Growth of the Shadow Inventory



- Despite Liquidations averaging 90k per month, since January 2009 the balance of the Shadow Inventory (loans greater than 12 months DQ, loans in foreclosure and REO properties) has increased by an average of 60k each month
- These figures DO NOT include any contribution from borrowers less than 12 months DQ, who have a very substantial chance of entering the Shadow Inventory over the next year, or re-performing borrowers, who have a reasonable chance of becoming delinquent again over the near term
- Current Overhang = (Shadow Inventory Outstanding + REO Outstanding) divided by Average Loans Sold Per Month

Source: CoreLogic Prime Servicing Database, CoreLogic Securitized Loan Database, FDIC, Fannie Mae, Freddie Mac, FHA, 1010Data, Amherst Securities

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Mortgage Market Math: Supply/Demand Gap

- 9.17 million homes are at risk of default over the next 6 years. Even if we try to be extremely conservative we can't get the number below 7.3 million units.

| | |
|--|--|
| Estimate of Supply (per Year) | |
| 1.22 – 1.53 million distressed units per year | |
| + 0.50 million units new construction | |
| <hr/> | |
| 1.72 – 2.03 million units total annual supply | |
| | |
| Estimate of Housing Demand (per Year) | |
| 0.60 million demand due to demographics (1.20 million housing formation x 0.50 home ownership) | |
| 0.40 million obsolescence | |
| + 0.20 million second home purchase | |
| <hr/> | |
| 1.20 million units total annual demand | |
| | |
| 1.72 – 2.03 million total supply per year | |
| - 1.20 million total demand per year | |
| <hr/> | |
| 0.52 – 0.83 million units net annual supply | |
| | |
| Over the next 6 years: | |
| 3.1 – 5.0 million units | |

- To solve the housing crisis you must create **3.1 to 5.0 million units** of housing demand over the next 6 years.

Source: CoreLogic Prime Servicing Database, CoreLogic Securitized Loan Database, 1010Data, Amherst Securities as of Mar 2012

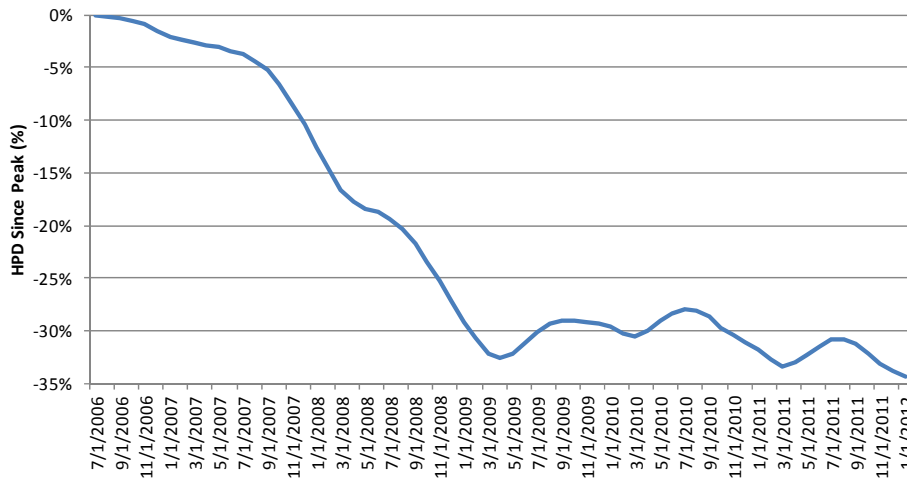
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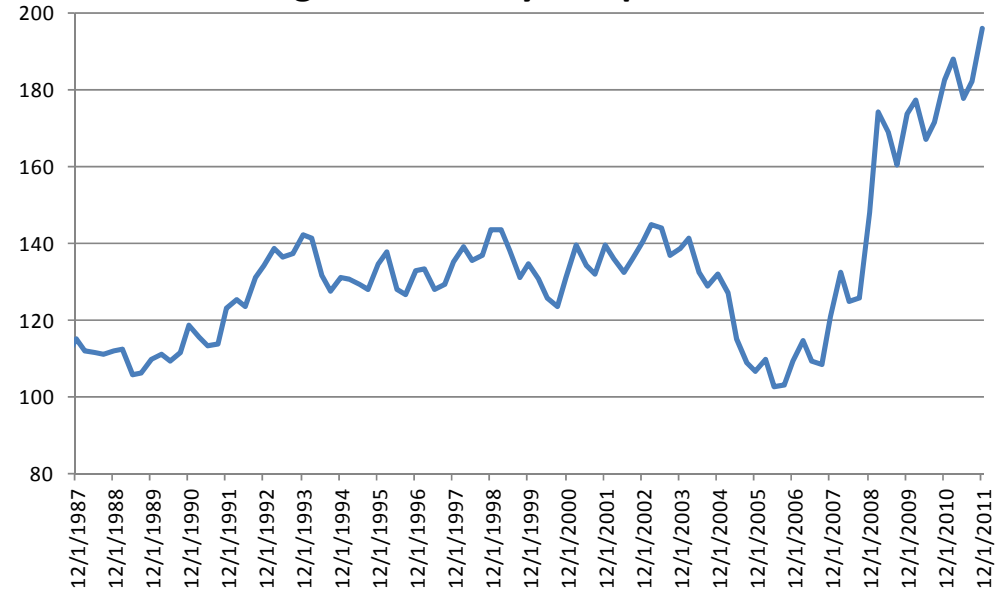


Prices Down, Rates Low → Affordability is at a 20 Year High...

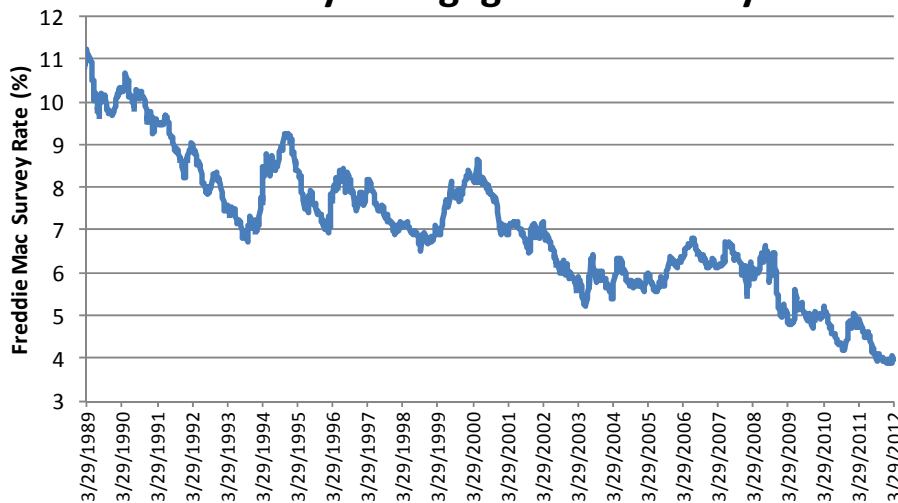
S&P/CS Cumulative HPD Since 2006 Peak



Housing Affordability Composite Index



Primary Mortgage Rate History



Source: Freddie Mac, National Association of Realtors, S&P/Case-Shiller, Amherst Securities

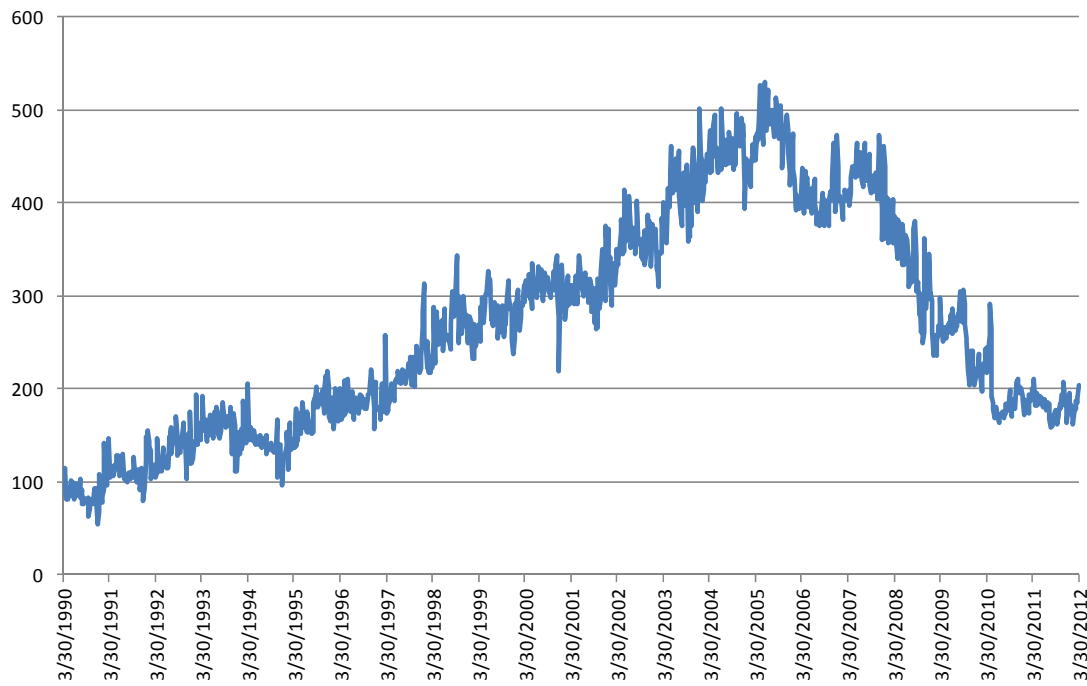
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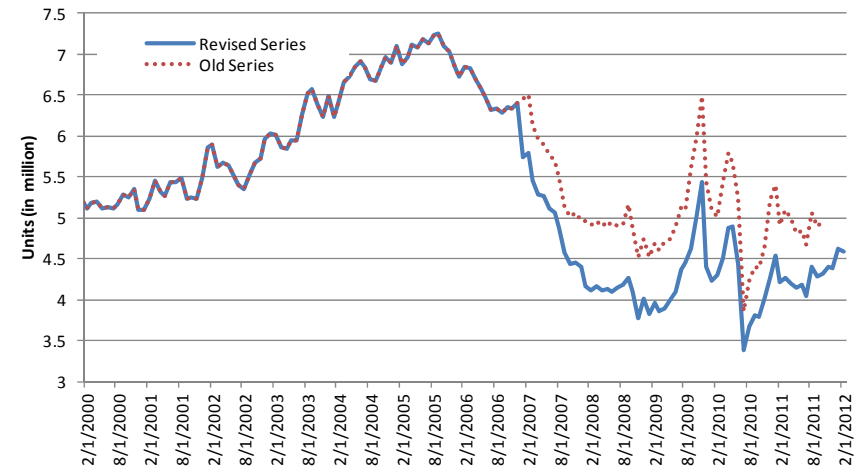


... But The Housing Market Remains In The Doldrums

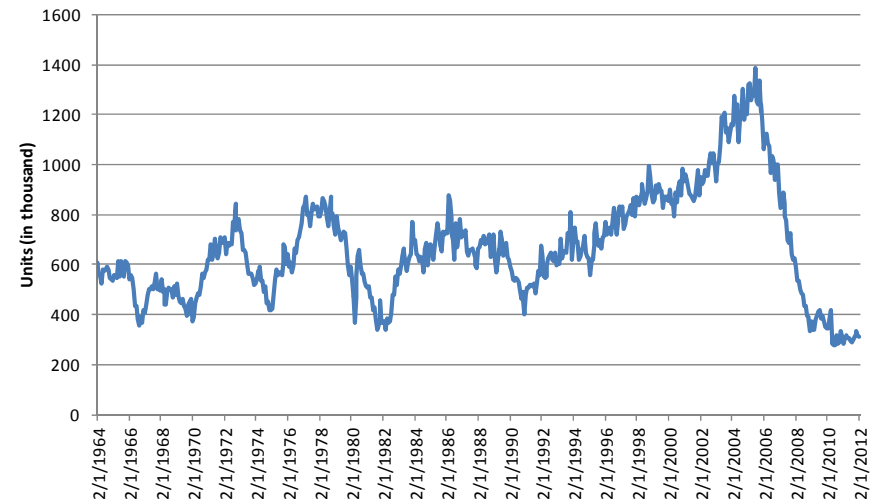
MBA Composite Purchase Index (Seasonally Adjusted)



US Existing Home Sales (Seasonally Adjusted)



US New One Family Home Sales (Seasonally Adjusted)



Source: Mortgage Bankers' Association, National Association of Realtors, US Census Bureau

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The Supply & Demand Function of Housing Is Broken

19% of 2007 Borrowers Can Not Qualify for a New Mortgage

| Status since June 2007 | Loan Count | % of Loans |
|--------------------------------|------------|------------|
| Prepaid | 21,790,227 | 42% |
| Never 90 days DQ | 19,735,552 | 39% |
| Reached 90+ DQ | 5,439,783 | 12% |
| Defaulted | 3,468,458 | 7% |
| Total Universe as of June 2007 | 50,434,019 | 100% |

GSE and Bank Portfolio Credit Is Very Tight

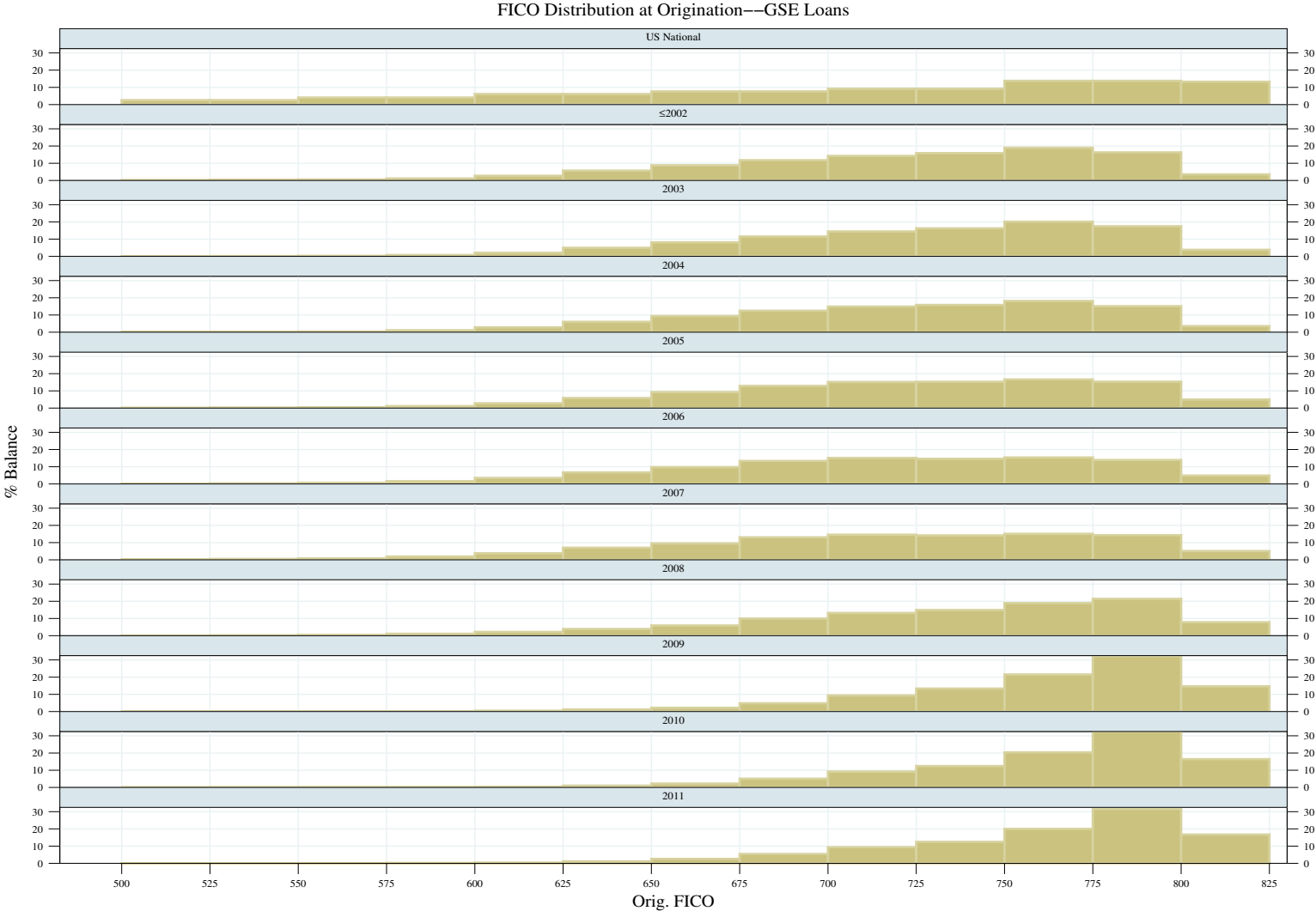
| | Orig. LTV | Orig. FICO | % Purchase | % Conforming Fixed | % Jumbo Fixed | % Conforming ARM | % Jumbo ARM |
|----------------|-----------|------------|------------|--------------------|---------------|------------------|-------------|
| GSE | 68 | 762 | 20.4 | 94.7 | 0.0 | 5.3 | 0.0 |
| Bank Portfolio | 67 | 757 | 32.3 | 54.5 | 21.9 | 3.8 | 19.8 |

Source: CoreLogic, 1010Data, Amherst Securities as of Jan 2012

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GSE FICO Distribution



Source: CoreLogic Prime Servicing Database, Money-Zine.com, Amherst Securities

Source: CoreLogic Prime Servicing Database, Money-Zine.com, 1010Data, Amherst Securities as of Mar 2012

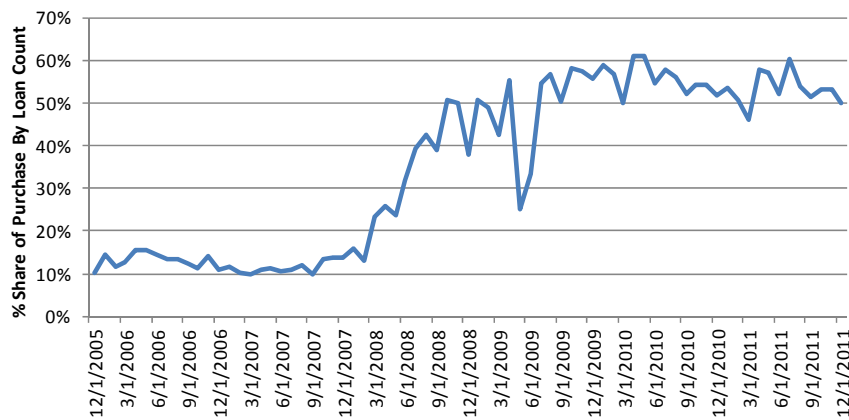
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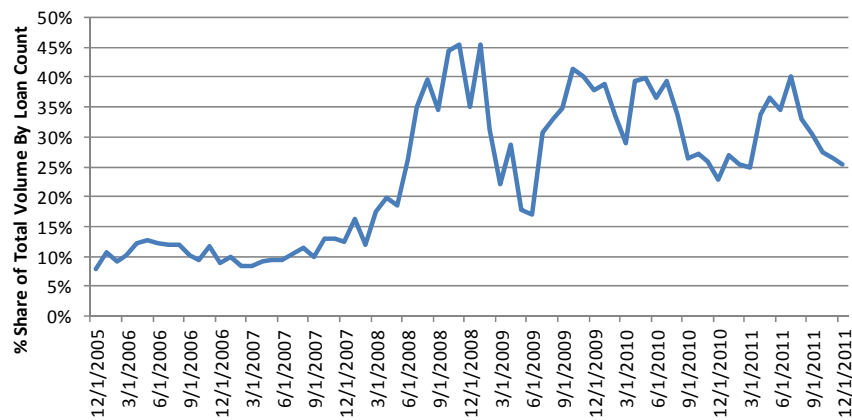


GNMA Has Become The Major Outlet For Purchasing A Home (All Are %s In Loan Count Terms)

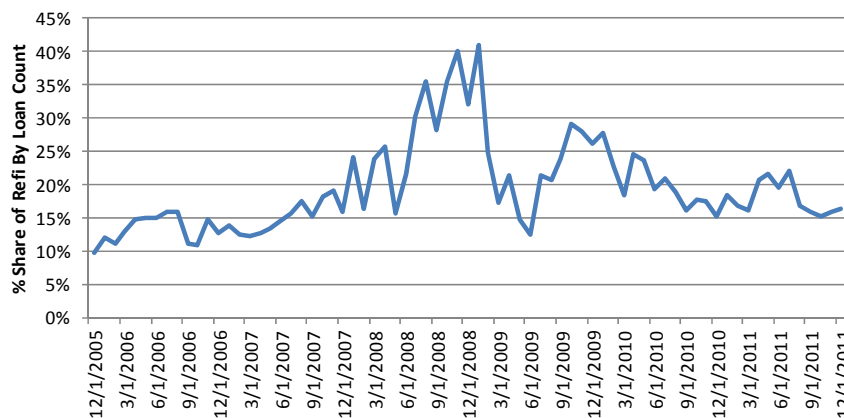
GNMA Share of Purchase Volume



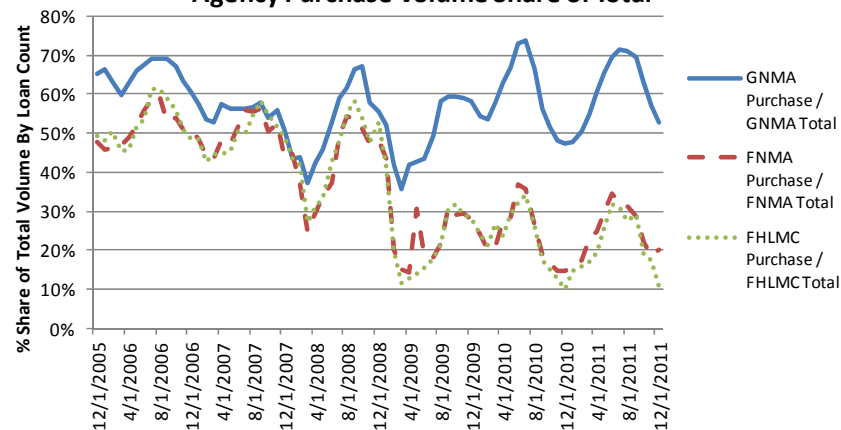
GNMA Share of Total Agency Volume



GNMA Share of Total Refi Volume



Agency Purchase Volume Share of Total

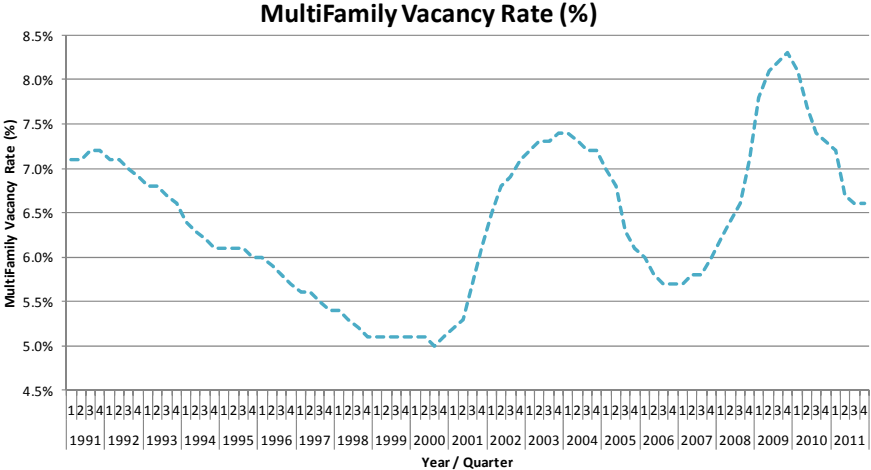
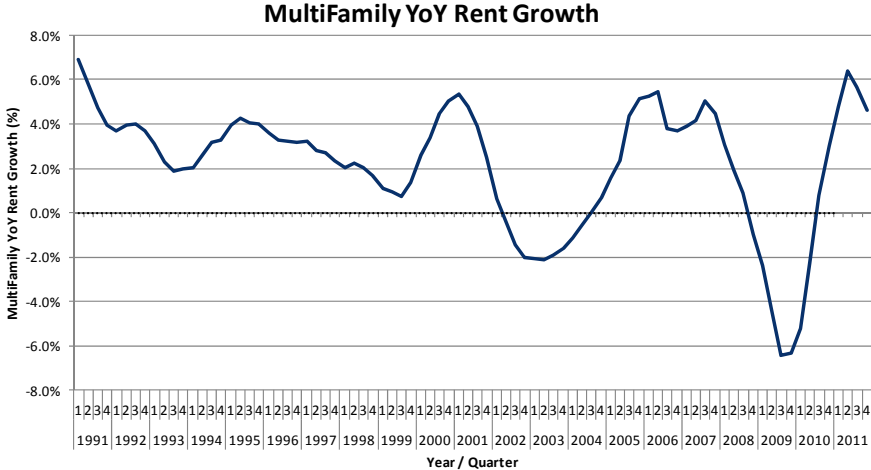


Source: Freddie Mac, Fannie Mae, Ginnie Mae, 1010Data, Inside MBS & ABS, Amherst Securities

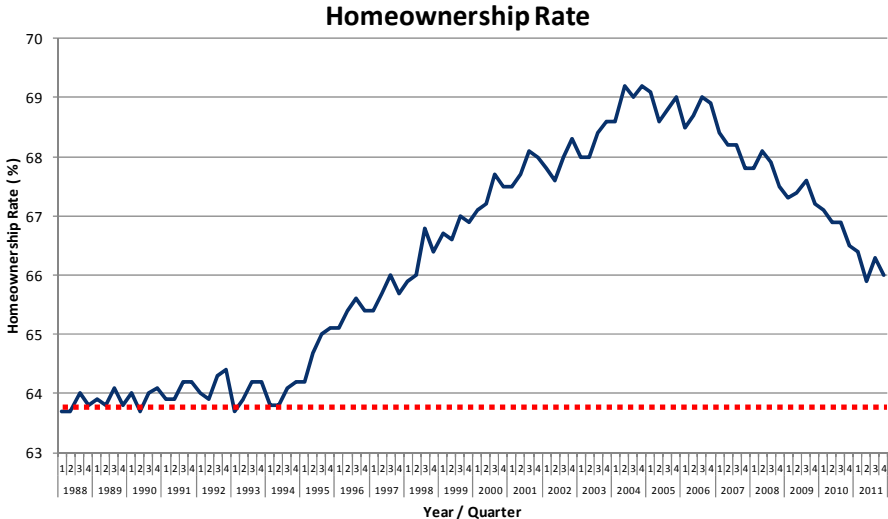


Rental Demand Is Outpacing Rental Supply

Multifamily Rents Are Up, Vacancies Are Down



Residential Homeownership Has Declined



If we factor in the 2.8 million loans > 12 months delinquent, the homeownership rate would be ~63.8%

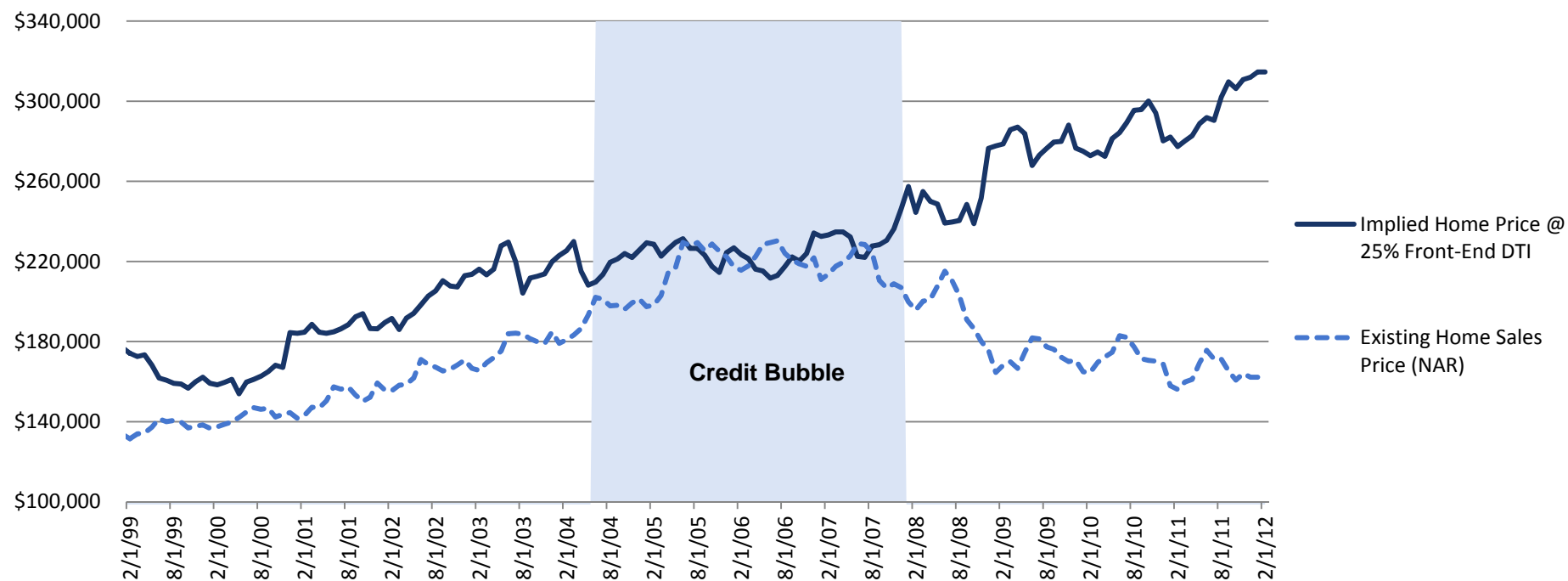
Source: US Census, PPR, Amherst Securities

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Housing Affordability Through Time



Implied Home Price is calculated as the Present Value of a 30-Year Fixed Rate Mortgage based on the following characteristics:

- Prevailing 30-Year Mortgage Rate (Freddie Mac Commitment Rate)
- 25% of Median Family Income (US Census)
- 15% Down Payment

Existing Home Sales Price data is from the National Association of Realtors

Source: US Census, National Association of Realtors, Bloomberg, Amherst Securities

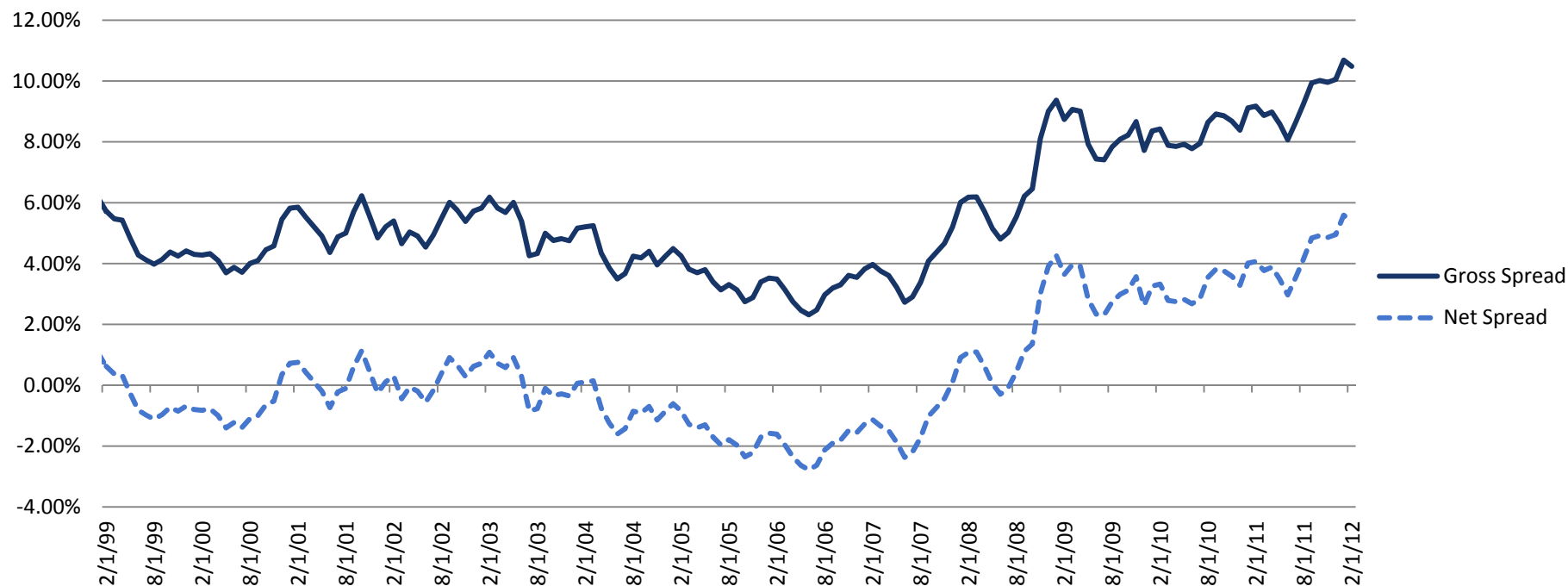
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Rental Yields Provide An Attractive Spread to Benchmarks (Assuming No Rental Increases or Home Price Appreciation)

Rental Cap Rate Spread to 10-Year Swaps Based on 33% of Gross Income Spent on Rent



Gross Spread = (Rental Income* ÷ Home Sales Price) – 10-Year Swap Rate

Net Spread = [(Rental Income* – 5.1% of Existing Home Sales Price for Expenses) ÷ Existing Home Sales Price] – 10-Year Swap Rate

* - Rental Income = 33% of Gross Median Income

(In reality, yields may be higher because lower home priced homes are more attractive for this strategy.)

Source: US Census, National Association of Realtors, Bloomberg, Amherst Securities

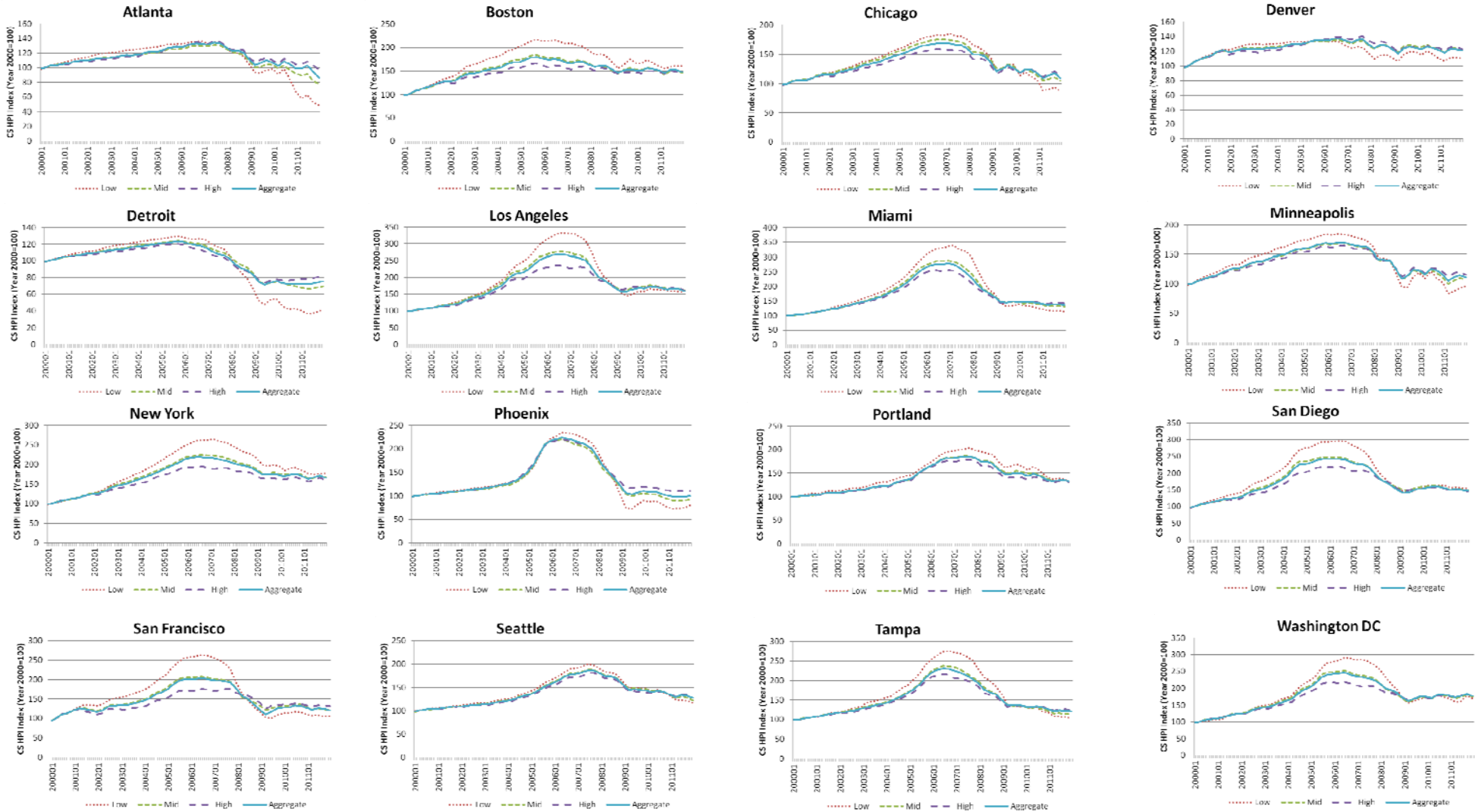
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Case Shiller Home Price Indices—Selected MSAs (by price tier)



Source: Case Shiller

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Lower Priced Homes = Better Cap Rates (vs. Higher Priced Homes; representative example)

| | | Low Priced Home | High Priced Home | | |
|----------------------------------|---|-----------------|------------------|---------------|--------|
| Home Price | | 120,000 | 600,000 | | |
| Monthly Gross Rent | | 1,200 | 4,000 | | |
| Annual Gross Rent | | 14,400 | 48,000 | | |
| Gross Cap Rate (%) | | 12.0% | 8.0% | | |
| Costs | Taxes (% of Home Price) | 2.0% | 2,400 | 2.0% | 12,000 |
| | Insurance (% of Home Price) | 0.6% | 720 | 0.3% | 1,800 |
| | Maintenance + HOA Fees (% of Gross Rent) | 8.0% | 1,152 | 6.0% | 2,880 |
| | Property Management Fee (% of Gross Rent) | 5.0% | 720 | 5.0% | 2,400 |
| | Leasing Fee (1/2 Month Rent) | | 600 | | 2,000 |
| | Vacancy (1/2 month vacant per annum) | | 600 | | 2,000 |
| | Total Annual Costs | | 6,192 | 23,080 | |
| Annual Cost as a % of Home Price | | 5.2% | 3.8% | | |
| Net Annual Rent | | 8,208 | 24,920 | | |
| Net Cap Rate (%) | | 6.8% | 4.2% | | |

Source: Amherst Securities

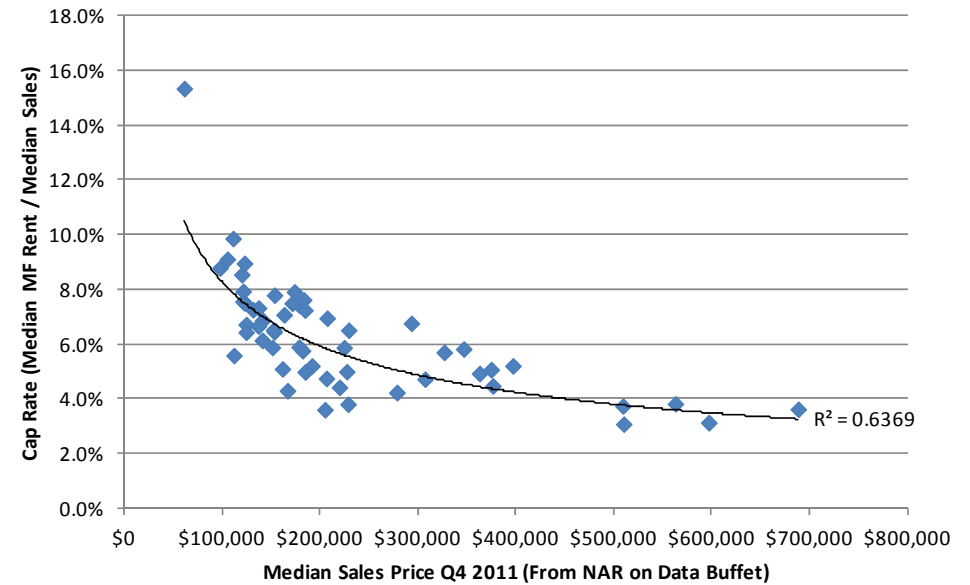


Home Prices vs. Rental Income and Gross Cap Rate— A Cross-MSA Comparison

Home Prices Vs. Rental Income



Home Prices Vs. Gross Cap Rates



Source: National Association of Realtors, Property and Portfolio Research (PPR), Amherst Securities



Home Prices vs. Rental Income—Phoenix-Mesa-Glendale, AZ

| <u>Average Home Price (\$ in thousands)</u> | <u>Average Rent</u> | <u>Average Gross Cap Rate</u> | <u>Average Net Cap Rate</u> |
|---|---------------------|-------------------------------|-----------------------------|
| 25-50k | \$ 838 | 25.0% | 18.8% |
| 50-75k | \$ 924 | 17.7% | 12.5% |
| 75-100k | \$ 1,018 | 14.2% | 9.4% |
| 100-125k | \$ 1,128 | 12.1% | 7.8% |
| 125-150k | \$ 1,237 | 10.9% | 6.8% |
| 150-175k | \$ 1,372 | 10.2% | 6.2% |
| 175-200k | \$ 1,492 | 9.6% | 5.7% |
| 200-225k | \$ 1,602 | 9.1% | 5.3% |
| 225-250k | \$ 1,718 | 8.8% | 5.0% |
| 250-275k | \$ 1,809 | 8.3% | 4.6% |
| 275-300k | \$ 1,959 | 8.2% | 4.6% |
| 300-325k | \$ 2,058 | 7.9% | 4.3% |
| 325-350k | \$ 2,133 | 7.6% | 4.1% |
| 350-375k | \$ 2,219 | 7.4% | 3.9% |
| 375-400k | \$ 2,408 | 7.5% | 4.0% |
| 400-425k | \$ 2,556 | 7.5% | 4.0% |
| 425-450k | \$ 2,707 | 7.5% | 3.9% |
| 450-475k | \$ 2,631 | 6.9% | 3.4% |
| 475-500k | \$ 2,806 | 6.9% | 3.5% |
| 500-550k | \$ 2,847 | 6.6% | 3.2% |
| >=550k | \$ 3,270 | 5.9% | 2.6% |

Source: National Association of Realtors, Zillow, Amherst Securities as of Feb 2012

This material has been prepared by individual sales and/or trading personnel and does not constitute investment research.

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The Potential Pool of Rental Properties

| Overall Housing Market | | | |
|---------------------------|----------------|-------------------|-------------------|
| Mark-To-Market Home Price | >12 Months DQ | Foreclosure / REO | Total Market |
| <50K | 48,260 | 151,581 | 2,025,789 |
| 50-100K | 245,035 | 737,017 | 11,394,108 |
| 100-150K | 218,517 | 551,880 | 12,479,967 |
| 150-200K | 129,419 | 314,251 | 8,320,826 |
| 200-400K | 196,312 | 453,893 | 13,382,025 |
| >=400K | 61,327 | 136,679 | 4,925,840 |
| Grand Total | 898,870 | 2,345,301 | 52,528,555 |

| | | |
|---------------------------|-----------|-----------|
| 0-200K | 641,231 | 1,754,729 |
| Total 0-200K >12MoDQ & FC | 2,395,961 | |

| Agency Market Only | | | |
|---------------------------|----------------|-------------------|---------------------|
| Mark-To-Market Home Price | >12 Months DQ | Foreclosure / REO | Total Agency Market |
| <50K | 18,671 | 74,446 | 1,291,194 |
| 50-100K | 95,717 | 337,411 | 7,668,843 |
| 100-150K | 86,974 | 245,567 | 8,736,667 |
| 150-200K | 47,144 | 133,337 | 5,839,680 |
| 200-400K | 53,294 | 155,640 | 9,036,161 |
| >=400K | 5,044 | 15,963 | 2,617,180 |
| Grand Total | 306,846 | 962,364 | 35,189,726 |

| | | |
|---------------------------|-----------|---------|
| 0-200K | 248,507 | 790,761 |
| Total 0-200K >12MoDQ & FC | 1,039,269 | |

Of the loans in the housing market that are in the optimal price category for rentals, 641K loans are >12 Month DQ category (71% of all >12 Month DQ loans) and 1,754K loans are either in Foreclosure or REO (77% of all Foreclosure/REO loans). This adds up to 2.395 million loans, 1.039mm in the Agency market, 716K in the Non-Agency market, and 640K on bank portfolios.

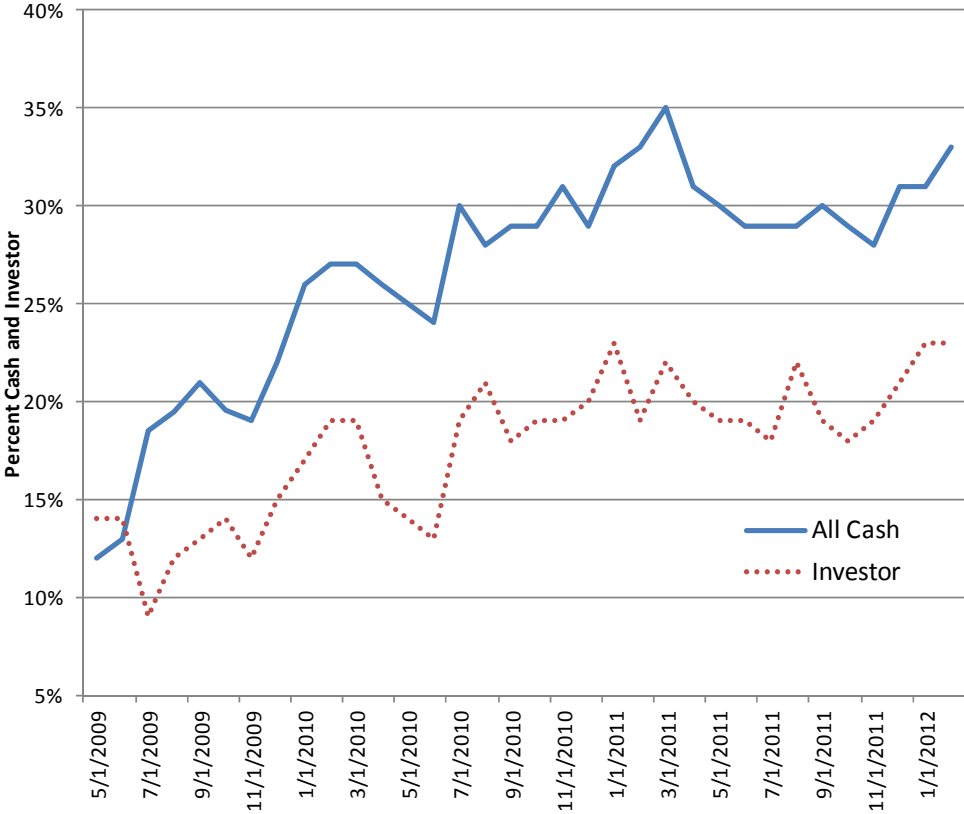
Source: CoreLogic, 1010Data, Amherst Securities as of Feb 2012

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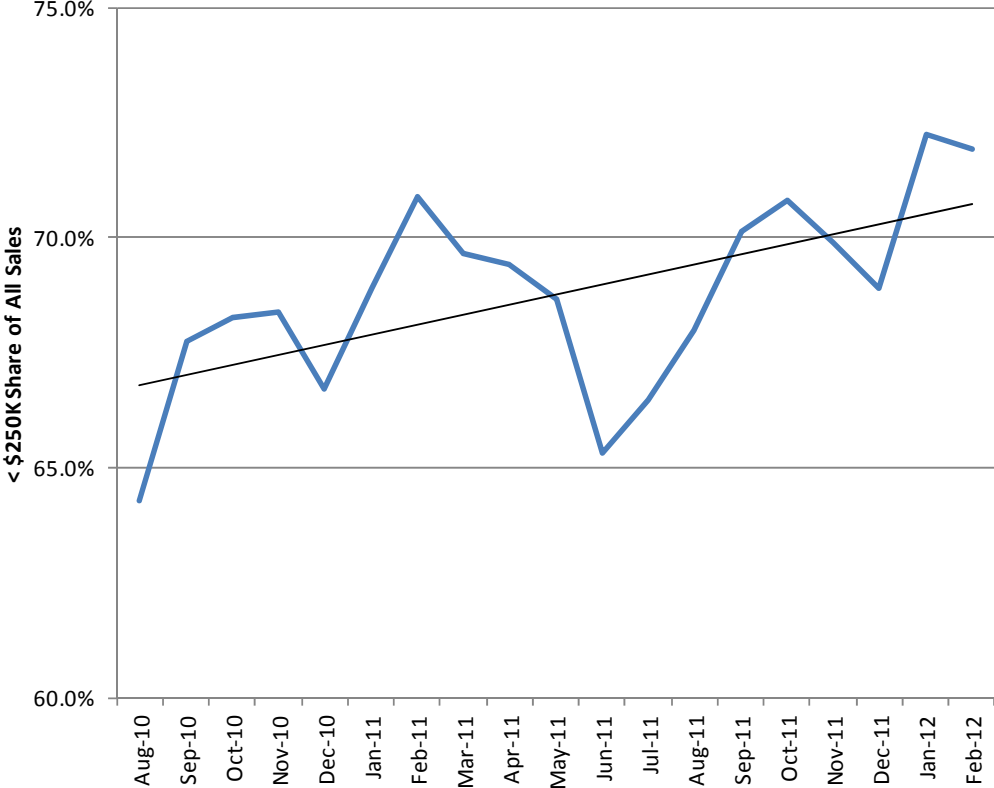
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Growing Importance of Investors

% of Cash and Investor Sales



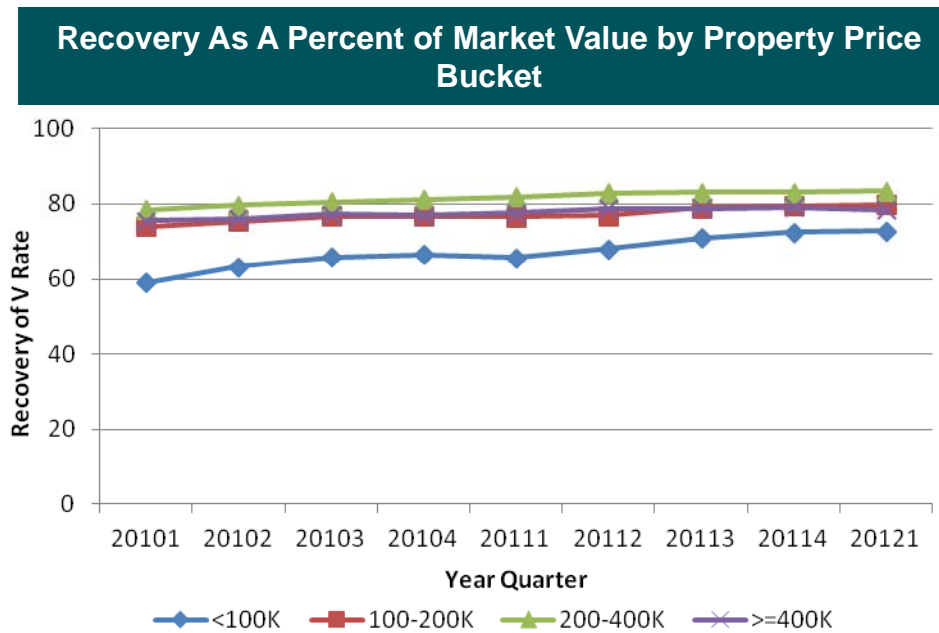
< \$250,000 Share of All Sales



Source: National Association of Realtors, Amherst Securities



Gross Recovery of Market Value Vs. Loss Severity



Source: CoreLogic, 1010data, Amherst Securities as of February 2012



What Does it Take to Restart Private Label Securitization?

1. Clear the backlog of distressed inventory through bulk sales of real estate owned (REO) properties to investors
2. The Regulatory Rules of Engagement Must Be Established
 - Risk Retention & QRM
 - QM
 - Investors / Originators don't know what their required capital reserves are going to be
3. The Securitization Must Be Economic
 - As a part of this, the rating agencies need to regain some credibility; better transparency will help; new entrants will help
 - Government Sponsored Entity (GSE) fees must be competitive with the private market
4. Governance Standards For Securitizations Need To Be Set—Conflicts of Interest Addressed
5. Credit Standards Need to be Wider—Lack of Demand at Current Credit Standards
6. Origination Expertise Must Be Developed for The PLS Market
 - Underwriting will most likely be done using a variant of the GSE underwriting systems
 - Title perfection, credit approval, and documentation processes have to be re-built.
 - More complete information on the borrower must be collected, and distributed to investors.



QRM and QM, as Proposed, Crimp Credit Availability

- Risk Retention: 5% for all loans that are not QRMs, GSE loans exempt
- What is a QRM? A very tight definition—
 - Be a closed end 1st lien mortgage to purchase or refinance a 1-4 family property, at least one unit of which is the principal dwelling of the borrower. (Investor loans cannot be QRM loans).
 - Have a maximum maturity of 30 years.
 - No other lien on the property can, to the creditor's knowledge, exist at closing of the mortgage transaction (i.e., a junior lien cannot be used in conjunction with a QRM to purchase a home).
 - The Agencies wanted to incorporate credit score, but were reluctant to use FICO or another measure designed by a private entity, as models may change materially at an entity's discretion. Instead, a set of derogatory factors was used; each lowers a borrower's credit score significantly; thus using derogatory events was thought to be a good proxy for credit scores.
 - A mortgage can qualify as a QRM if the borrower was not >30 days past due, in whole or in part on any obligation at the time of closing, and the borrower had not been >60 past due on any debt obligation within the preceding 24 months.
 - A borrower must not have, within the preceding 36 months been a debtor in a bankruptcy proceeding, had property repossessed or foreclosed upon, engaged in a short sale or deed-in-lieu of foreclosure, or been subject to a Federal or State judgment for collection of any unpaid debt.
 - Mortgages cannot be structured with interest only payments, negative amortization, or balloon payments, or prepayment penalties.
 - Interest rates on hybrid ARMs cannot increase more than 2%/year (or 6% over the life of the loan). Thus, 5/1 hybrids with a 5/2/5 cap structure (5% at the first reset, 2% at subsequent resets. 5% life cap) would not qualify, as the initial reset could potentially introduce too big a payment shock.
 - The maximum LTV would be 80% for purchase loans, 75% for rate and term refi loans, and 70% for cash out refinancing. The LTV must reflect the appraised value of the home if the purchase price was higher than the appraised value. Down payments can include gifts, but not loans.
 - The maximum front-end DTI would be 28%; the maximum back-end DTI would be 36%.
- What is QM? Ability to pay—
- 2 ways to implement—as a safe harbor, as a rebuttable presumption
- Interaction between QM and QRM—If QM was done as a rebuttable presumption, QRM could be the new standard
 - Problems are exacerbated when the interplay between QM, QRM, the Dodd-Frank lower HOEPA thresholds, and HUD's "disparate impact" rule are considered.
- Premium Capture Reserve Account—Not written as Intended
- Re-REMICs- could not be done under the proposed guidelines



QRM: What Percentage GSE Loans Qualify?

| Year | QRM | PTI/DTI Relaxed | LTV Relaxed | FICO Relaxed | Product Type Relaxed | All Loans |
|--------------|---------------|-----------------|--------------|--------------|----------------------|-----------------------------|
| 1997 | 20.44% | 13.04% | 13.74% | 5.81% | 3.75% | \$286,497,878,371 |
| 1998 | 23.29% | 13.30% | 17.10% | 6.24% | 2.17% | \$691,033,994,509 |
| 1999 | 19.48% | 14.83% | 12.95% | 5.37% | 3.16% | \$481,450,519,442 |
| 2000 | 16.44% | 17.00% | 8.40% | 4.53% | 3.70% | \$356,779,731,420 |
| 2001 | 19.37% | 14.33% | 13.11% | 4.62% | 3.01% | \$1,039,412,013,403 |
| 2002 | 22.37% | 15.35% | 10.72% | 4.62% | 4.28% | \$1,385,056,256,240 |
| 2003 | 24.57% | 16.68% | 10.02% | 4.98% | 4.55% | \$1,924,265,340,603 |
| 2004 | 17.03% | 17.68% | 6.25% | 4.34% | 6.35% | \$937,643,914,289 |
| 2005 | 14.41% | 18.78% | 5.45% | 3.36% | 6.74% | \$939,069,358,457 |
| 2006 | 11.52% | 17.59% | 3.91% | 2.73% | 7.11% | \$887,443,942,464 |
| 2007 | 10.72% | 16.14% | 4.95% | 2.24% | 5.44% | \$1,027,460,511,244 |
| 2008 | 17.39% | 22.01% | 9.22% | 2.12% | 4.64% | \$793,136,249,487 |
| 2009 | 30.52% | 24.47% | 15.26% | 1.74% | 3.38% | \$1,176,445,135,548 |
| Total | 19.79% | 17.36% | 9.86% | 3.91% | 4.62% | \$11,925,694,845,477 |

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Source: OCC Docket No. OCC-2011-0002

When Does Securitization Begin Again?

Early October 2011

A simple prime jumbo fixed securitization would require a **5.000%** Mortgage Rate to target a \$99-24 price, 3.78% yield senior bond (4 points or ~86bps behind agencies):

| | Size (\$mm) | WAL | NWAC | Price | Yield (%) |
|-----------------|-------------|------|--------|--------|-----------|
| NET COLLATERAL* | \$100 | 7.5 | 4.750% | 100.30 | 4.69 |
| Senior Tranches | \$92 | 7.1 | 3.750% | 99.75 | 3.78 |
| Senior IO** | \$92 | 7.1 | 1.000% | 3.50 | 15.02 |
| Subordinates | \$8 | 12.3 | 4.750% | 66.38 | 10.00 |
| Proceeds | | | | 100.30 | |

Costs to Originate = \$100.00 loans + \$1.00 costs + \$0.18 profit = \$101.18

Proceeds from Deal = \$100.30 bonds + \$1.12 servicing – \$0.25 deal fees = \$101.18

Assuming 25bps of servicing priced at a 4.5x multiple and a AAA IO priced at a 3.5x multiple above, a **5.000%** GWAC pool of loans would create a breakeven securitization. Jumbo rates are now 4.60%; an economic securitization would require rates to be **40 bps** (5.00% – 4.60%) above jumbos or **99 bps** (5.00% – 4.01%) above agencies.

Source: Yieldbook, Amherst Securities

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