

US Securitization Research



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The Reverse Mortgage Market

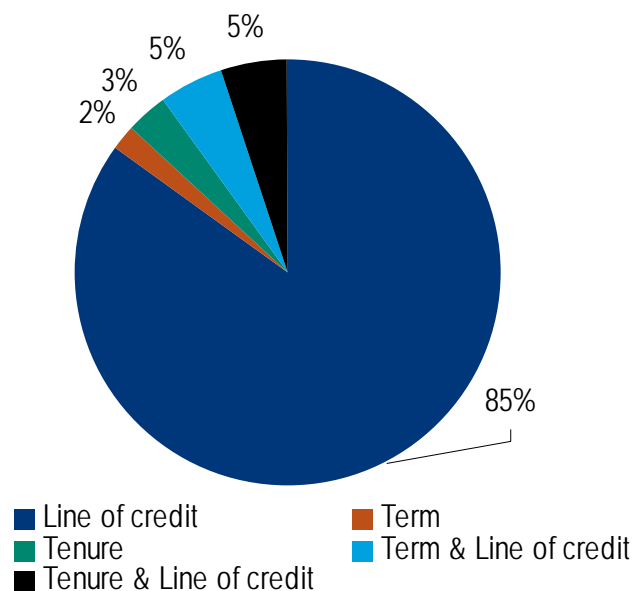
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Reverse Mortgages

- Reverse mortgage - a loan to a senior citizen, collateralized by the value of their home
- Allows homeowner to convert home equity into cash
 - Without selling the house
 - Without making monthly payments
 - designed for "house rich, cash poor" elderly homeowners
- Borrower has the option of choosing the loan type:
 - Lump sum line of credit (fixed-rate loan)
 - Line of credit to draw against
 - Tenure payments - Fixed payments until a maturity event
 - Term payments - Fixed payments for a set period of time
 - Combined LOC & payments
- Over the loan life, no cash flows from borrower to lender, unlike traditional mortgages
- Counseling is mandatory for all HECM borrowers
- No prepayment penalties
- Leading originators: MetLife Bank, GenWorth, Quicken, Urban Financial

HECM Reverse Mortgage Origination Breakdown ('08-'09)



Source: HUD

Home Equity Conversion Mortgage (HECM) Program

- HECM Program
 - Established by Congress in 1987, permanently in 1998
 - Administered by HUD to insure reverse mortgages
- Eligibility
 - Age: each borrower 62 years or older
 - No restrictions on borrower income
 - No currently outstanding debt on the home
 - HECM proceeds may be used to pay off a lien
 - Single-family residence in 1- to 4- unit dwelling, part of a PUD, or a HUD-approved condo
 - Borrowers must meet with a HUD-approved counselor before filing an application for the loan
- No maturity date on HECM loans
- Borrowers do not need to repay the loan until certain maturity events:
 - The last surviving borrower dies (mortality)
 - The borrower sells their home (mobility)
 - The borrower transfers the title of the home to someone else
 - The borrower does not live in the home for 12 consecutive months
 - The borrower fails to pay property taxes or homeowners insurance or allows the property to deteriorate
- Heirs can elect to pay off the loan or ask the servicer to liquidate
- Non-recourse to the borrower or heirs

HECM Origination

HECM Standard Origination Example

Appraised Home Price	\$300,000
FHA Loan Limit	\$625,500
Maximum Claim Amount	\$300,000
Borrower Age	73
Standard Principal Limit Factor @ 5% rate	0.681
Initial Principal Limit	\$204,300
Origination Fees max of 2% on first \$200,000 of appraised value, 1% on the remainder, up to \$6,000	\$3,000
Up-front MIP 2% of the maximum claim amount	\$6,000
Third Party Fees Title insurance, appraisal, etc.	\$3,000
Total Fees	\$12,000
Net proceeds available to borrower	\$192,300

Source: HUD, BofA Merrill Lynch Global Research

HECM Saver Origination Example

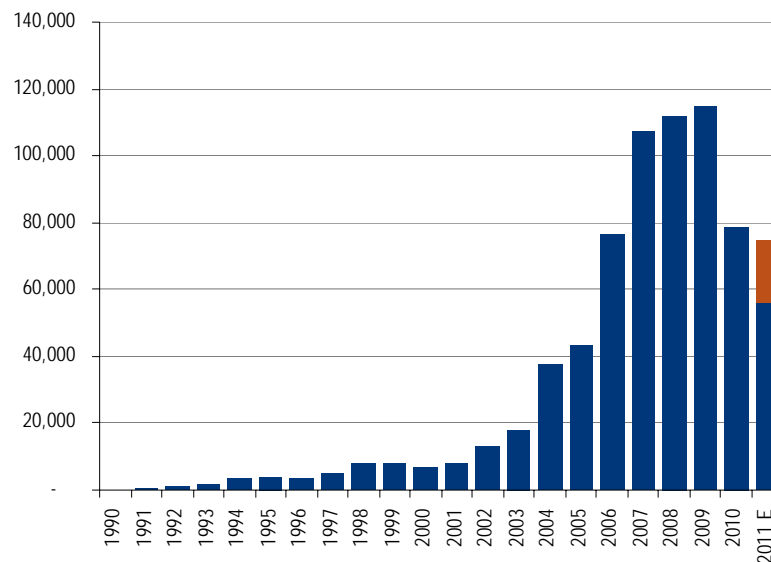
Appraised Home Price	\$300,000
FHA Loan Limit	\$625,500
Maximum Claim Amount	\$300,000
Borrower Age	73
Saver Principal Limit Factor @ 5% rate	0.557
Initial Principal Limit	\$167,100
Origination Fees max of 2% on first \$200,000 of appraised value, 1% on the remainder, up to \$6,000	\$3,000
Up-front MIP 0.01% of the maximum claim amount	\$0
Third Party Fees Title insurance, appraisal, etc.	\$3,000
Total Fees	\$6,000
Net proceeds available to borrower	\$161,100

Source: HUD, BofA Merrill Lynch Global Research

Update on Originations

- Several originators have begun raising coupons to offset margin pressure, the first time in recent history coupons will be higher than the “FHA rate floor”
- HMBS program was split in two in October 2010
 - Interest rate floor lowered to 5%
 - Annual MIP increased from 0.50% to 1.25%
- HECM Standard
 - Traditional HECM
 - 2% up-front MIP
- HECM Saver
 - Lower up-front MI costs (0.01% of max claim)
 - Offset with lower principal limit factors (LTVs)
 - Yet to gain traction, but expected to grow significantly
 - Compares well to a traditional HELOC
 - 9% share of recent HECM originations

Number of HECMs Originated per Year



Source: HUD

Lender	Volume			Mix		Market Share		
	Retail	Wholesale	Total	Retail	Wholesale	Retail	Wholesale	Total
Wells Fargo	18,362	1,558	19,920	92%	8%	25%	5%	27%
MetLife Bank	5,819	6,694	12,513	47%	53%	8%	23%	17%
Bank of America	7,242	4,070	11,312	64%	36%	10%	14%	15%
Urban Financial Group	877	5,306	6,183	14%	86%	1%	18%	8%
Generation Mortgage	1,422	3,680	5,102	28%	72%	2%	12%	7%
Genworth Financial	743	4,218	4,961	15%	85%	1%	14%	7%
One Reverse Mortgage	4,068	0	4,068	100%	0%	5%	0%	5%
Financial Freedom	715	908	1,623	44%	56%	1%	3%	2%
Security One	645	902	1,547	42%	58%	1%	3%	2%
Reverse Mortgage USA	1,082	0	1,082	100%	0%	1%	0%	1%
TOTAL	40,975	27,336	68,311	55%	45%	55%	92%	91%

Source: Reverse Mortgage Insight

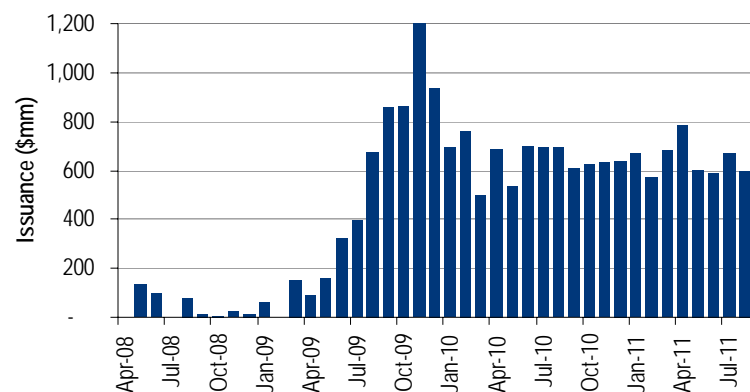
Market Update Summary

- **Ginnie Mae HECM MBS (“HMBS”) volume still strong**
 - 2010: **\$10.6 billion** in HMBS issued **\$5.7 billion** of Ginnie Mae HECM REMIC (“HREMIC”) issued
 - 2011 YTD: **\$7.0 billion** in HMBS **\$2.3 billion** of HREMIC
- **New issue securitized volume is running between \$800 million and \$1 billion per month**
 - Cashflow variety: pass-throughs, front sequentials, last cashflows, IO, stripped pass-throughs, and super-premiums (collateral and IO)
- **The value proposition:**
 - 100% government guarantee
 - Low negative convexity - stable predictable prepayment profile
 - Additional spread and yield versus agency CMOs, Treasuries, other gov’t guaranteed products of similar duration
 - Low reinvestment risk as interest due accrues onto the bond notional
- **HMBS and HREMIC buyers:** Large domestic banks, money managers, insurance companies, hedge funds, REITs
- **IO buyers:** Hedge funds and other opportunistic funds recently, whether managed by pension funds or MMs
- **Liquidity: improved over the past two years**
 - Modeling tools have been built and refined by both Bloomberg and Intex
 - HECM servicers report loan level collateral information monthly to Intex and Bloomberg, improving data transparency
 - Yieldbook expected to be online 4Q 2011
 - Interactive Data Corporation (“IDC”) announced a HECM pricing service in April 2010 for daily, regular marks
- **Long term: Potentially robust HECM market**
 - Demographic shift under way in the US
 - Pressures on entitlement spending (Social Security and Medicare) should necessitate alternative funding sources, like HECMs
 - Shift to private funding of retirement costs

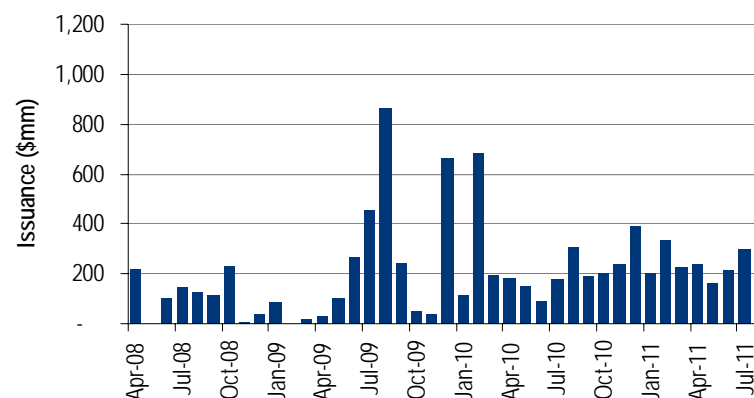
GNMA HMBS Issuance

- Since the inception of the GNMA HMBS program in April 2008, 1,016 HMBS pools have been issued through August '11, totaling \$27.7 billion
 - 593 fixed rate pools, totaling \$19.0 billion
 - 423 adjustable rate pools, totaling \$8.6 billion

Monthly Fixed-rate HMBS Issuance



Monthly Floating-rate HMBS Issuance



HMBS Issuer	2008	2009	2010	2011	Total
Bank of America	\$514	\$4,249	\$3,634	\$919	\$9,315
MetLife	\$253	\$2,097	\$2,022	\$1,892	\$6,263
Wells Fargo	\$0	\$939	\$2,042	\$1,853	\$4,834
Generation Mortgage	\$0	\$605	\$1,120	\$738	\$2,463
Reverse Mortgage Solutions	\$0	\$370	\$1,230	\$383	\$1,983
Urban Financial Group	\$0	\$0	\$0	\$939	\$939
OneWest Bank	\$469	\$36	\$312	\$117	\$934
Sun West Mortgage	\$121	\$236	\$324	\$249	\$931
Total	\$1,357	\$8,532	\$10,684	\$7,089	\$27,663

Source: Bloomberg

GNMA H-REMIC Issuance

- In November 2009, BofAML issued the first Ginnie Mae H-REMIC, a CMO backed by HMBS
- To date, BofAML has issued over \$4.5 billion of H-REMIC securities out of \$8.1 billion total
 - 19 of the 46 H-REMIC deals issued to date

Year	H-REMIC	Lead Manager	Par Amount
2009	GNR 2009-H01	BofAML	\$130,876,963
	GNR 2010-H01	BofAML	\$142,861,229
	GNR 2010-H02	BofAML	\$209,313,023
	GNR 2010-H03	BofAML	\$401,972,625
	GNR 2010-H04	Jeffries	\$87,525,973
	GNR 2010-H05	Barclays	\$149,421,978
	GNR 2010-H06	BofAML	\$266,230,550
	GNR 2010-H07	BofAML	\$293,221,491
	GNR 2010-H08	Barclays	\$117,456,250
	GNR 2010-H09	Barclays	\$118,680,283
	GNR 2010-H10	BofAML	\$326,413,936
	GNR 2010-H11	Morgan Stanley	\$42,636,362
	GNR 2010-H12	Barclays	\$237,685,760
	GNR 2010-H13	BofAML	\$168,407,777
2010	GNR 2010-H14	Jeffries	\$100,058,675
	GNR 2010-H15	Barclays	\$206,298,689
	GNR 2010-H16	Jeffries	\$89,687,208
	GNR 2010-H17	BofAML	\$226,026,690
	GNR 2010-H18	Barclays	\$258,304,492
	GNR 2010-H19	BofAML	\$362,974,154
	GNR 2010-H20	Barclays	\$175,082,157
	GNR 2010-H21	Wells Fargo	\$153,539,851
	GNR 2010-H22	BofAML	\$551,121,379
	GNR 2010-H23	Barclays	\$170,587,892
	GNR 2010-H24	Wells Fargo	\$163,762,553
	GNR 2010-H25	Cantor	\$162,449,544
	GNR 2010-H26	UBS	\$121,133,799
	GNR 2010-H27	Wells Fargo	\$188,179,356
	GNR 2010-H28	BofAML	\$231,744,230

Year	H-REMIC	Lead Manager	Par Amount
2011	GNR 2011-H01	Barclays	\$106,929,831
	GNR 2011-H02	Cantor	\$122,015,643
	GNR 2011-H03	BofAML	\$299,458,380
	GNR 2011-H04	Mizuho	\$1,109,786
	GNR 2011-H05	BofAML	\$198,472,501
	GNR 2011-H06	Wells Fargo	\$92,437,272
	GNR 2011-H07	Morgan Stanley	\$122,000,000
	GNR 2011-H08	BofAML	\$328,929,833
	GNR 2011-H09	Barclays	\$87,039,055
	GNR 2011-H10	Barclays	\$225,965,045
	GNR 2011-H11	BofAML	\$102,603,609
	GNR 2011-H12	Morgan Stanley	\$120,526,099
	GNR 2011-H13	BofAML	\$100,760,106
	GNR 2011-H14	Wells Fargo	\$113,061,258
	GNR 2011-H15	BofAML	\$96,392,932
	GNR 2011-H16	Barclays	\$65,204,574
	GNR 2011-H17	BofAML	\$73,241,198
09-'11 Total			\$8,109,801,991

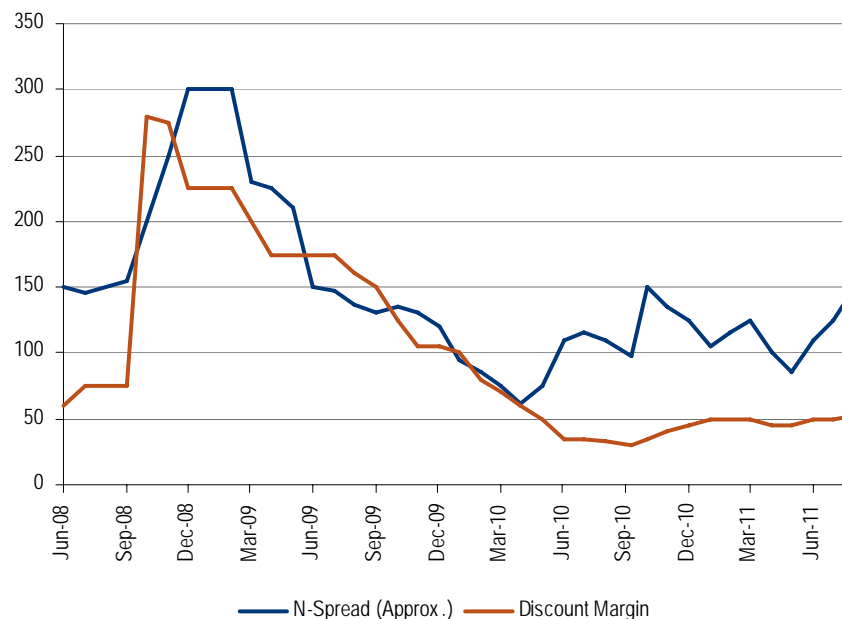
HMBS Distribution

- **Domestic banks**
 - Largest HMBS buyers due to spread pickup over funding costs
 - Attracted to the safety of the government guarantee
 - Buyers of both par and premium floaters as well as premium fixed rate MBS
 - The compelling prepayment story
- **Money managers**
 - MMs overseeing US government (GNMA) and or stable value funds have allocated a portion of their funds for this “spreadier” asset class to boost returns without sacrificing credit
 - Like banks, have participated in both floaters and fixed rate
- **Insurance companies & pension funds**
 - Typically yield buyers
 - Very active in 2009 for passthroughs
 - Began to go out the curve for LCFs in 2010 as spreads tightened and the rally continued
- **Hedge funds/structured derivative/opportunistic funds**
 - Focusing on IO cashflow with or without leverage as a alternative to well structured PAC IO
 - Compelled by double-digit yields without leverage and with government credit
 - Have begun levered purchases on the MBS side, attracted to funding, just like REITs
- **REITs**
 - Buyers of HMBS with 5-7% haircuts at L+8 area financing
 - Attractive funding because these are Ginnie Mae pools

HMBS Spread History

- **Spring 2008:** Initial observable spreads; fixed rate pricing at 150/N and par floaters at 60DM
- **Financial crisis:** Fixed rate spreads jumped to 300/N and par floaters to 275DM
- **Spring 2009:** Wells Fargo and MetLife begin regular new issuance. Spreads tighten steadily to 60/N and 35DM for floaters over the next year
- **2010 European crisis:** Rates rally; Fixed rate quickly snaps out to 115/N
- **Winter 2010:** Persistent tightening
- **2011 economic & fiscal concerns:** Rates rally & yield bogeys fail to adjust; Fixed rate widens from 85/N out to 150/N
- **Fixed rate HECMs**
 - now yield 3-6x their Treasury benchmarks
- **Floating rate HECMs**
 - relatively stable in the 50DM context
 - Minimal duration
 - $L + 50 = 70\text{bps}$, same as a 4yr Treasury

HMBS Spread History



Source: BofA Merrill Lynch Global Research

Increased Transparency

- There has been significant improvement in the available tools to model HECMs and HECM-backed securities
 - Both Bloomberg and Intex allow for cashflow modeling
 - Bloomberg's HECM cashflow model incorporates Price-Yield table analytics/functionality and vastly improved collateral stratification
- Increased pricing transparency
 - In March 2010, IDC announced that it would begin to provide daily pricing for GNMA HMBS

Bloomberg Collateral Screen

CLC

Mtge CLC

HMBS Collateral Composition

G2 740423	As of Jul10	Avg	Min	Max
# Participations	21	239,341.24	28,787.17	390,310.02
Orig Amt	5,026,166.00	5.011	5.000	5.180
Orig WAC	5.006	0.07	0.00	1.00
UPB/PrinLmt %	98.96	239,724.96	28,820.30	390,748.90
		Balance/MaxClaim%	65.04	52.40
		Margin		76.88
# Participations with payment	19			
UPB of Participations with Payment	4,699,325.16	UPB payoff %	0.26	

Stratify By LTV

Loan Breakdown Data As of Jul10

LTV	Count	Balance	% Balance	Youngest Age
55.01 - 60.00	6	1,339,562	26.60	65
60.01 - 65.00	6	963,259	19.13	70
65.01 - 70.00	4	1,155,411	22.94	76
70.01 - 75.00	4	1,243,268	24.69	81
75.01 - 80.00	1	334,499	6.64	90

55.01 - 60.00	60.01 - 65.00	65.01 - 70.00
70.01 - 75.00	75.01 - 80.00	

Australia 61 2 9777 8600 Brazil 5511 2048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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Bloomberg Cashflows

CFT

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99)	Export	G2 740423				Cash Flows	
Settle	08/23/10	Coupon	5.006	Term	598	Factor	Aug10 1.005781820
Price	100-00	WAC	6.081	WAL	5.597	Orig Balance	5,026,166
Yield	5.0010					Prev Balance	5,055,226
Spread	339.31						

	Pay Date	Balance	Interest	Principal	Cash Flow
1.	9/20/2010	5,031,939	21,087	23,288	44,375
2.	10/20/2010	5,008,758	20,990	23,180	44,171
3.	11/20/2010	4,985,684	20,894	23,074	43,967
4.	12/20/2010	4,962,717	20,797	22,967	43,765
5.	1/20/2011	4,939,855	20,702	22,862	43,563
6.	2/20/2011	4,917,099	20,606	22,756	43,362
7.	3/20/2011	4,894,448	20,511	22,651	43,163
8.	4/20/2011	4,871,901	20,417	22,547	42,964
9.	5/20/2011	4,849,457	20,323	22,443	42,766
10.	6/20/2011	4,827,118	20,229	22,340	42,569
11.	7/20/2011	4,804,881	20,136	22,237	42,373
12.	8/20/2011	4,782,746	20,043	22,134	42,178
13.	9/20/2011	4,760,714	19,951	22,033	41,983
14.	10/20/2011	4,738,783	19,859	21,931	41,790
15.	11/20/2011	4,716,953	19,767	21,830	41,597

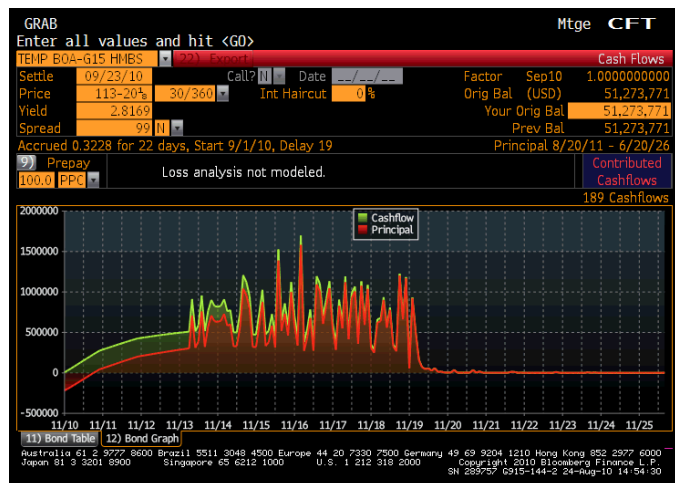
20) Cashflows	21) Chart	22) Collateral
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Japan 81 3 3201 8900	Singapore 65 6212 1000	U.S. 1 212 318 2000		

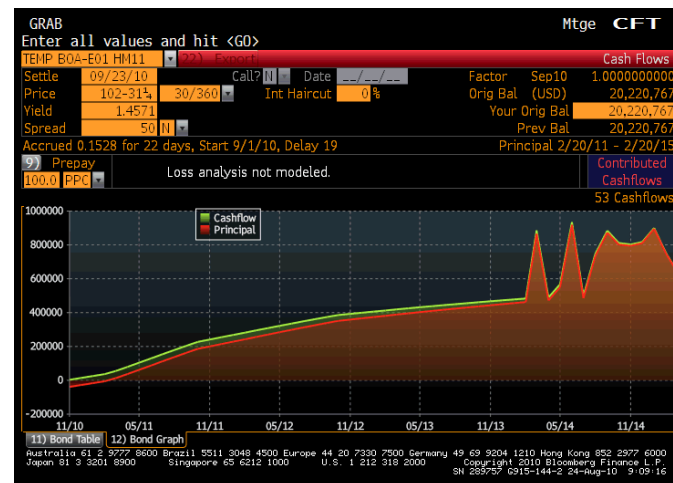
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Increased Transparency - Cashflow Modeling

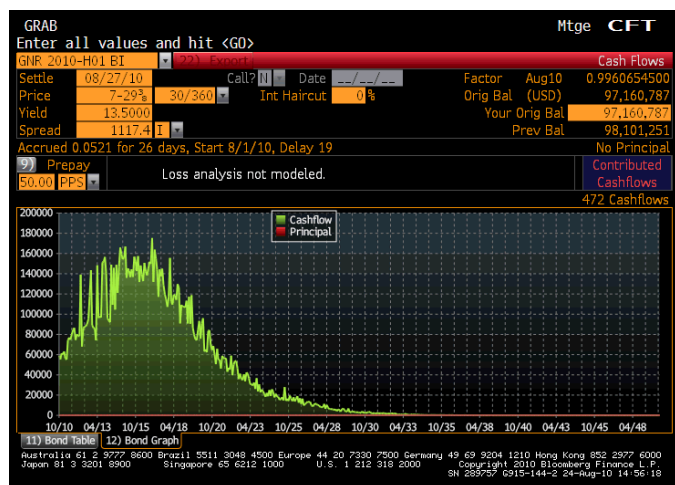
Passthrough



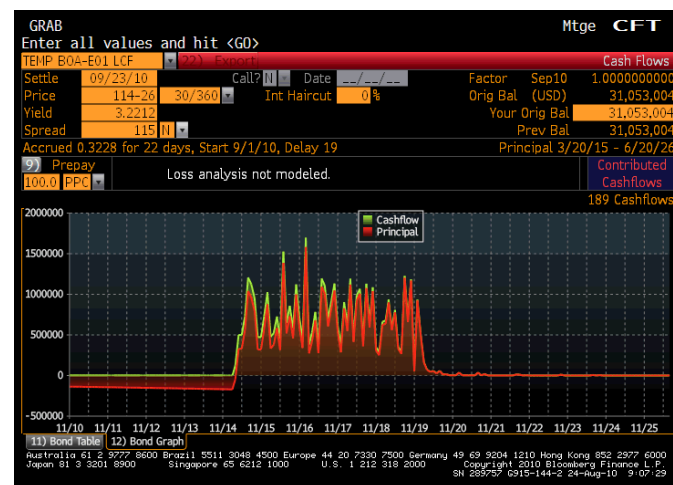
Front Sequential



Interest-only



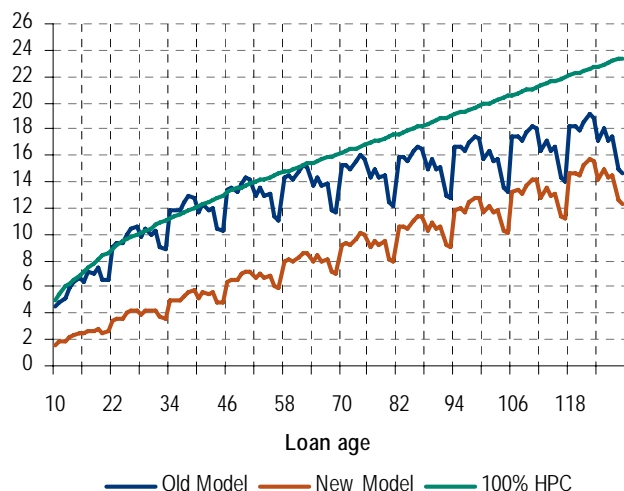
Last Cashflow



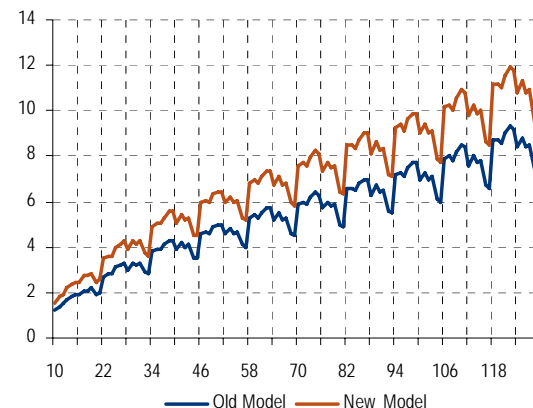
Prepayment Modeling

- Our model breaks prepayments into 3 components
 - Mortality - borrower death, based on actuarial curves
 - Morbidity - 30% of mortality, via FHA white paper
 - Mobility - all other factors, e.g. moving and refinancing
- Originally calibrated off of 2003-2006 data
- Prepayment activity since the crisis necessitated a recalibrating - mobility off for 3 years, then ramping in

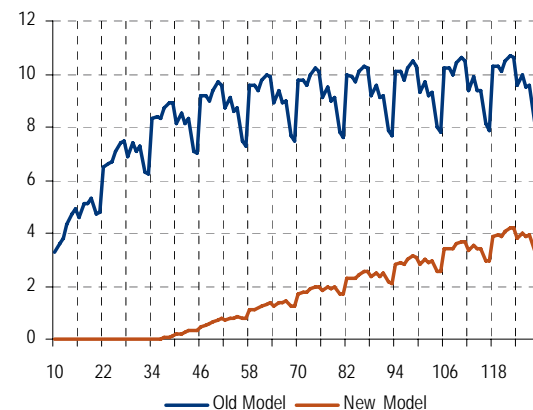
HECM Prepayment Forecasting (%CPR)



Mortality & Morbidity Components (%CPR)



Mobility Component (%CPR)

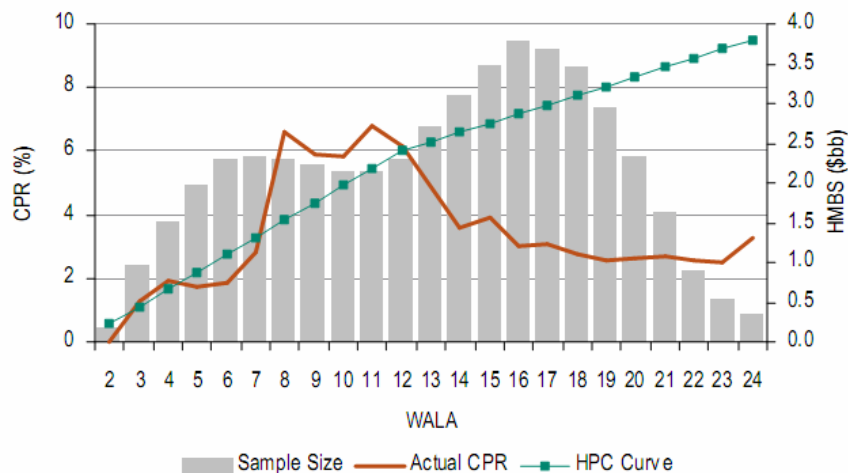


Prepayment Practicalities

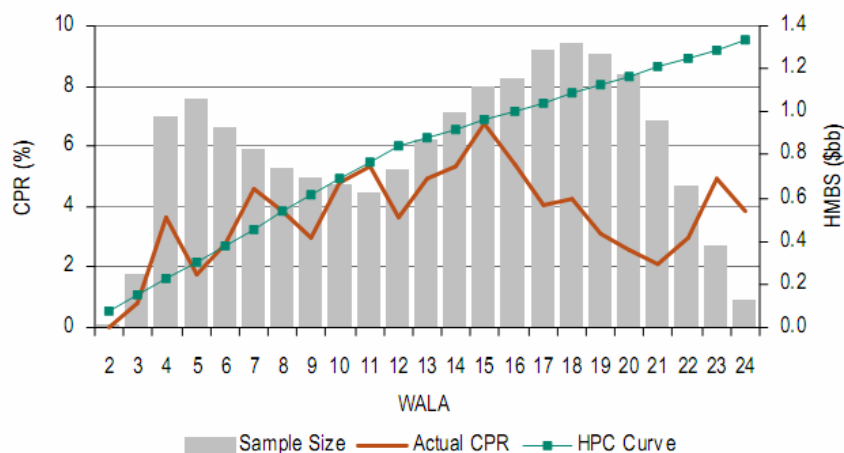
- HECM borrowers are less likely to prepay compared to a traditional mortgage borrower and typically experience low repayments for the first 12-18 months
- While HECM borrowers are driven by opportunities to extract more equity, there are obstacles preventing this:
 - **Borrowers**
 - HECM borrowers typically will not look for refinancing opportunities
 - The process of taking out a new HECM is a lengthy process, with an extensive counseling requirement
 - Origination fees can be significant
 - HECM borrowers typically view their HECM as the last loan they take out
 - **HECM Floor:** HECM principal limits stop increasing as the expected rate goes below 5%. Currently all HECMs are originated at or near the floor. If rates fall, no incentive to refinance.
 - **Housing Prices**
 - Dramatic gains in HPA would allow borrowers to withdraw more equity. We do not see this as likely.
 - Housing gains must also outpace the growth in the loan itself.
 - **Historical Performance**
 - In 2008, the HUD limit was raised from \$362,000 to \$417,000 and then again to \$625,000, giving HECM borrowers with homes worth more than \$362,000 large refinancing incentives. We did not observe a significant pickup in refinancing.

Prepayment Trends

Fixed-rate HECM Prepay Rates - 5 months aggregated history



Floating-rate HECM Prepay Rates - 5 months aggregated history



- For the first 12 months of WALA, prepay rates have been tracking the standard HPC curve
- Further out the seasoning curve prepay rates are low relative to HPC
- The low rates are due to a depressed housing market and lower home equity
- The higher rates for young loans are likely due to FHA rule changes enacted in October 2010
 - Lower rate floor
 - Higher principal limit factors for some borrowers - slight incentive to refi

Prepayment Trends - WALA

Type	WALA	Balance	WAC	1Mo CPR	3Mo CPR	6Mo CPR	12Mo CPR
ARM	0	91,659,751	1.24	5.84	0.00	0.00	0.00
	3	167,343,052	1.84	2.94	1.83	0.00	0.00
	6	487,275,903	1.94	6.40	4.96	4.85	0.00
	9	804,716,983	1.93	4.02	3.75	4.70	0.00
	12	641,930,067	1.95	5.59	5.81	5.35	4.75
	15	450,388,852	2.03	4.87	6.34	6.24	4.55
	18	345,075,392	2.48	12.85	9.88	10.49	7.55
	21	778,375,813	2.67	6.13	6.52	7.20	6.49
	24	921,771,251	2.80	7.14	6.09	5.98	5.63
	27	783,421,869	2.85	4.41	3.66	3.60	3.94
	30	53,229,768	2.81	5.04	6.45	6.14	4.87
	33	90,340,335	1.44	4.60	2.27	2.51	3.26
	36	40,661,147	1.12	0.25	3.66	4.32	4.55
	39	151,783,065	1.52	2.60	3.32	2.79	2.80
	42	48,868,335	1.34	2.60	2.92	4.14	4.33
	45	11,396,453	1.46	0.71	2.69	6.63	4.03
	48	349,819,848	1.30	1.80	1.76	1.82	1.85
	51	160,007,795	0.90	0.49	0.24	2.03	2.60
	54	9,371,778	1.28	0.90	1.72	2.04	2.53
	57	320,370,402	1.61	3.89	3.05	3.22	2.89
	60	667,773,363	1.58	6.22	5.60	5.60	4.62
Fixed	0	176,208,500	4.63	0.51	0.00	0.00	0.00
	3	1,599,707,142	4.68	1.18	1.29	0.00	0.00
	6	2,080,531,684	4.81	2.14	1.63	1.72	0.00
	9	2,095,106,428	4.82	4.15	2.73	2.28	0.00
	12	2,181,273,847	5.20	2.83	3.72	3.85	4.28
	15	1,843,450,792	5.26	3.91	3.74	4.97	4.88
	18	1,758,340,045	5.45	3.34	4.03	4.80	5.49
	21	2,690,005,115	5.47	3.91	3.82	3.38	3.40
	24	2,868,915,726	5.48	3.94	4.97	4.05	3.64
	27	1,348,886,137	5.53	2.69	4.12	4.09	3.77
	30	305,913,890	5.53	1.51	0.85	8.72	5.55
	33	157,011,676	5.58	9.68	6.24	7.40	6.49

Source: BofA Merrill Lynch Global Research

Prepayment Trends - Vintage

Vintage	Type	Balance	WAC	1Mo CPR	3Mo CPR	6Mo CPR	12Mo CPR
2009	ARM	2,652,553,666	2.31	5.17	4.60	4.55	4.30
	Fixed	5,953,786,187	5.49	3.74	4.44	4.21	3.76
2010	ARM	2,820,955,102	2.12	5.64	5.68	6.01	5.26
	Fixed	7,915,547,490	5.28	3.54	3.69	4.16	4.65
2011	ARM	1,903,983,407	1.86	5.33	4.89	5.30	0.00
	Fixed	5,248,879,206	4.77	2.25	1.92	1.88	0.00

Source: BofA Merrill Lynch Global Research

Prepayment Trends - Issuer

Issuer	Vintage	Type	Balance	WAC	1Mo CPR	3Mo CPR	6Mo CPR	12Mo CPR
BAML	2009	ARM	2,551,262,478	2.31	5.12	4.42	4.41	4.15
		Fixed	1,598,803,100	5.52	3.61	3.53	3.56	3.05
	2010	ARM	1,489,608,120	2.07	4.71	4.74	5.12	4.30
		Fixed	2,167,672,384	5.34	2.72	3.59	3.72	3.87
	2011	ARM	402,925,055	2.14	6.85	5.18	5.40	0.00
		Fixed	520,612,026	4.90	1.85	1.44	1.55	0.00
Generation	2009	Fixed	632,050,620	5.49	1.64	2.91	2.88	3.71
	2010	Fixed	1,128,669,211	5.27	5.28	4.84	5.12	5.76
	2011	ARM	21,479,530	1.92	8.18	12.29	0.00	0.00
		Fixed	724,631,006	4.80	3.25	1.96	2.34	0.00
Metlife	2009	Fixed	2,208,395,611	5.47	3.81	4.99	5.10	4.09
	2010	ARM	417,160,693	2.34	6.75	6.41	5.90	5.14
		Fixed	1,637,244,207	5.34	3.73	3.20	3.88	4.13
	2011	ARM	521,438,296	1.73	2.45	3.64	3.70	0.00
		Fixed	1,385,288,053	4.78	2.06	1.80	1.92	0.00
OneWest	2009	ARM	10,893,016	1.22	9.19	8.89	5.64	5.40
		Fixed	1,489,271	5.87	8.93	12.29	9.64	8.33
	2010	ARM	74,022,691	1.97	3.99	7.95	6.85	5.65
		Fixed	241,192,091	5.24	2.54	3.36	4.19	3.96
	2011	ARM	51,741,676	1.81	3.17	2.53	1.90	0.00
		Fixed	65,981,210	4.87	0.37	1.00	0.81	0.00
RMS	2009	Fixed	399,387,032	5.61	2.71	5.02	3.14	2.94
	2010	Fixed	1,254,193,512	5.34	3.09	3.08	3.30	4.64
	2011	Fixed	387,807,871	4.84	3.94	2.38	1.69	0.00
Sunwest	2009	ARM	5,181,154	1.29	1.40	2.00	1.89	3.93
		Fixed	244,050,207	5.42	0.01	5.35	3.36	2.69
	2010	ARM	5,678,211	1.26	0.28	1.69	1.69	2.35
		Fixed	321,348,191	4.98	2.52	3.95	4.68	5.45
	2011	ARM	28,199,897	1.36	8.47	0.01	1.39	0.00
		Fixed	223,254,653	4.56	1.60	1.13	0.82	0.00
Urban	2011	ARM	147,917,269	1.29	0.72	1.66	0.00	0.00
		Fixed	824,036,817	4.79	1.19	0.89	0.95	0.00
Wells	2009	ARM	85,217,018	2.59	6.12	9.58	8.80	8.85
		Fixed	869,610,347	5.46	6.81	5.28	4.84	4.93
	2010	ARM	834,485,386	2.12	6.92	6.81	7.62	7.59
		Fixed	1,165,227,894	5.13	4.09	4.13	5.20	5.70
	2011	ARM	730,281,684	1.93	7.42	5.84	6.06	0.00
		Fixed	1,117,267,571	4.70	2.48	3.00	2.47	0.00

HMBS and HECM IOs

- GNMA HMBS is an accretion pass-through structure
 - When funds from loan repayment are sufficient to pay interest and principal, HMBS factor down, otherwise HMBS accrete
- When loans accrete to 98% of their Max Claim Amount, they are automatically purchased out of the pool
 - A large percentage of HMBS cashflows are caused by these events, creating a very stable cashflow with relatively small model/prepay sensitivity
- A HECM IO is created by stripping off a coupon from HMBS collateral, simultaneously creating a lower coupon principal-paying bond
 - HECM IO accrues at an interest rate based on collateral balance notional
 - When HECM loans pay off, available funds come into the deal and are first directed to pay the coupons of the P&I bond and the IO pro-rata
 - When available funds are not enough to pay the coupons, HECM IO factors up and the interest shortfall gets added to a deferred interest account, which itself earns interest and gets paid back as principal pro-rata with the P&I bond

Relative Value - HMBS FRM Passthrough

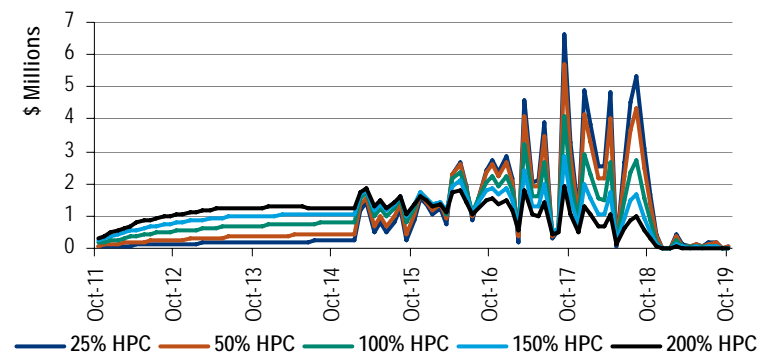
■ HMBS fixed-rate passthrough pool G2 710077

- June 2011 Issue
- Coupon: 4.70%
- WA Borrower Age: 71 yrs
- WA Loan Age: 3.2 mo
- WA LTV: 65.6%

■ Valuations across prepay scenarios point to a relatively stable yield, spread, and average life profile

■ Mandatory buyout at 98% of maximum claim provides extension protection

Passthrough Pool P&I Cashflow



Source: Bloomberg, BofA Merrill Lynch Global Research

	25% HPC	50% HPC	100% HPC	150% HPC	200% HPC
Price	109-15+	109-15+	109-15+	109-15+	109-15+
Yield	3.01	2.89	2.64	2.36	2.07
Mod Duration	5.38	5.05	4.46	3.96	3.53
Avg Life	5.85	5.67	5.00	4.39	3.86
N-spread	160	153	145	135	120
Pay window	Sep-22	Sep-22	Oct-22	Oct-22	Oct-22

Source: Bloomberg, BofA Merrill Lynch Global Research

Compare to Fannie VADM & Project Loans

HMBS Passthrough Pool: G2 710077

	25% HPC	50% HPC	100% HPC	150% HPC	200% HPC
Price	109-15+	109-15+	109-15+	109-15+	109-15+
Yield	3.01	2.89	2.64	2.36	2.07
Mod Duration	5.38	5.05	4.46	3.96	3.53
Avg Life	5.85	5.67	5.00	4.39	3.86
N-spread	160	153	145	135	120
Pay window	Sep-22	Sep-22	Oct-22	Oct-22	Oct-22

Fannie VADM: FNR 2011-98 VA

	50% PSA	100% PSA	150% PSA	200% PSA	300% PSA
Price	107-03+	107-03+	107-03+	107-03+	107-03+
Yield	2.18	2.18	2.18	2.15	1.97
Mod Duration	5.34	5.34	5.34	5.24	4.62
Avg Life	5.99	5.99	5.99	5.85	5.07
N-spread	72	72	72	73	76
Pay window	Dec-22	Dec-22	Dec-22	Jun-21	Dec-18

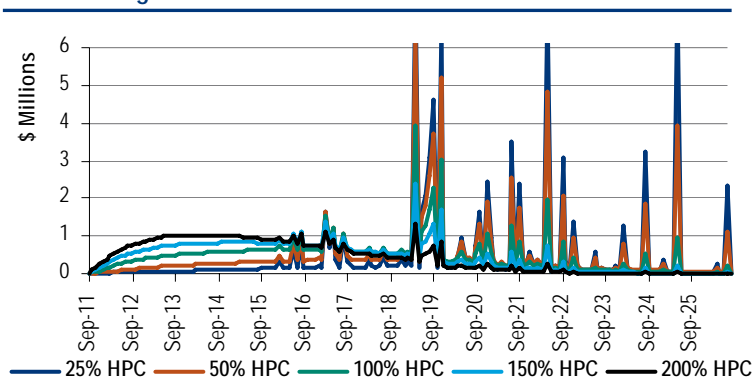
GNMA Project Loan: GNR 2011-86 B

	5% CPJ	10% CPJ	15% CPJ	25% CPJ	35% CPJ
Price	102-31	102-31	102-31	102-31	102-31
Yield	2.70	2.57	2.46	2.27	2.12
Mod Duration	9.47	6.79	5.44	4.10	3.41
Avg Life	11.30	7.69	6.00	4.42	3.63
N-spread	39	75	100	125	131
Pay window	11/19 - 8/26	6/17 - 10/21	4/16 - 6/19	4/15 - 3/17	9/14 - 2/16

Relative Value - HMBS ARM Stripped PT

- HMBS stripped floater PT, GNR 2011-H17 FA
 - July 2011 Issue w/HMBS from 6/10 to 7/11
 - HECM Standard ARM collateral
 - Coupon: 1mLIBOR + 53bps
 - WA Borrower Age: 78 yrs, WALA: 23 mo
 - WA Loan to Max Claim: 49%

Passthrough Pool P&I Cashflow



Source: Bloomberg, BofA Merrill Lynch Global Research

HMBS stripped floater : GNR 2011-H17 FA

	25% HPC	50% HPC	100% HPC	150% HPC	200% HPC	75% Draw	125% Draw
Price	100-00	100-00	100-00	100-00	100-00	100-00	100-00
Yield	2.66%	2.52%	2.24%	1.99%	1.79%	2.27%	2.21%
Eff Duration	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Mod Duration	9.01	7.86	6.10	4.92	4.11	6.21	5.99
Avg Life	9.96	8.62	6.51	5.17	4.26	6.65	6.38
DM	53	53	53	53	53	53	53
Pay window	Feb16-Jul36	Apr12-Jul36	Dec11-Jul36	Oct11-May36	Oct11-Aug31	Dec11-Jul36	Dec11-Jul36

GNMA Floater: GNR 2010-57 AF

	100% PSA	200% PSA	250% PSA	300% PSA	400% PSA	500% PSA
Price	99-17	99-17	99-17	99-17	99-17	99-17
Yield	2.45%	2.14%	2.00%	1.87%	1.64%	1.46%
Eff Duration	0.48	0.31	0.25	0.20	0.14	0.10
Mod Duration	8.30	5.79	4.94	4.26	3.27	2.60
Avg Life	9.36	6.22	5.22	4.45	3.37	2.66
DM	23	26	27	29	32	36
Pay window	Oct11-Nov36	Oct11-Nov36	Oct11-Nov36	Oct11-Nov36	Oct11-Nov36	Oct11-Sep36

HECM IO Basics

- Simple strip structure
 - HMBS collateral accrues at fixed or floating coupon
 - Stripped P&I bond pays fixed or floating coupon
 - IO pays a floating amount fixed strip amount
- If HMBS cash flow is not enough to pay HMBS interest due, all bond factors increase, and interest due to IO accretes in IO deferred interest account
- Interest accrues at the rate of collateral on the deferred interest balance, so the greater the deferred balance, the greater the IO coupon payment due
- If HMBS cash flow is more than enough to pay HMBS interest, all bond factors decrease - principal is allocated pro-rata to the stripped P&I bond and the deferred interest balance

HMBS	HMBS	HMBS	HMBS	HMBS	HMBS	HMBS	Stripped P&I	Stripped P&I	Stripped P&I	Stripped P&I	Stripped P&I	Stripped P&I	IO	IO	IO	IO	IO Deferred	IO Deferred	IO
Balance	Coupon	Interest Due	Cashflow	Interest Paid	Prin	Paydown	Balance	Coupon	Interest Due	HA Interest Paid	Paydown	HA Cashflow	Balance	Coupon	Interest Due	IO Interest Paid	Interest Amount	Interest Paydown	Total Cashflow
100,000,000	5.5%	458,333	0	0	-458,333	0	100,000,000	5%	416,667	0	0	0	100,000,000	0.500%	41,667	0	0	0	0
100,458,333	5.5%	460,434	100,000	100,000	-360,434	0	100,416,667	5%	418,403	90,871	0	90,871	100,458,333	0.502%	42,031	9,129	41,667	0	9,129
100,818,767	5.5%	462,086	1,000,000	462,086	537,914	537,914	100,744,198	5%	419,767	419,767	537,516	957,284	100,818,767	0.504%	42,319	42,319	74,569	398	42,716
100,280,853	5.5%	459,621	2,000,000	459,621	1,540,379	1,540,379	100,206,682	5%	417,528	417,528	1,539,240	1,956,768	100,280,853	0.504%	42,093	42,093	74,171	1,139	43,232
98,740,474	5.5%	452,561	3,000,000	452,561	2,547,439	2,547,439	98,667,442	5%	411,114	411,114	2,545,555	2,956,670	98,740,474	0.504%	41,446	41,446	73,032	1,884	43,330
96,193,034	5.5%	440,885	3,000,000	440,885	2,559,115	2,559,115	96,121,887	5%	400,508	400,508	2,557,222	2,957,730	96,193,034	0.504%	40,377	40,377	71,148	1,893	42,270

Source: Bloomberg, BofA Merrill Lynch Global Research

Value in HECM IOs

Representative HECM IO off of floating-rate passthrough collateral

Security	Description	Orig Bal	Curr Bal	Cpn Type	Coupon
HMBS Passthroughs					
21 HMBS pools	Passthru off 1mL ARMs	73,241,198	73,053,977	WAC flt	curr 2.38%
HREMIC Securities					
GNR 2011-H17 FA	Stripped PT floater	73,241,198	73,053,977	LIBOR flt	1mL + 53bps
GNR 2011-H17 AI	WAC IO strip	73,241,198	73,053,977	WAC	curr 1.63%

- GNR 2011-H17 AI
 - Underlying 21 HMBS floating-rate passthru pools
 - July 2011 Issue, underlying HMBS from 6/10 to 7/11
 - HECM Standard ARM collateral
 - WA Borrower Age: 78 yrs, WALA: 23 mo
 - Recent speeds ~4% CPR, ~50% HPC

	50% model	75% model	100% model	150% model	200% model	100% model, 75% Draw	100% model, 125% Draw
Price	7-10	7-10	7-10	7-10	7-10	7-10	7-10
Yield	16.11%	11.32%	8.05%	1.42%	-5.33%	8.51%	7.56%
Mod Duration	3.84	3.28	3.27	3.24	3.21	3.31	3.22
Avg Life	9.94	7.26	6.29	4.91	3.98	6.42	6.17
Pay window	Oct11-Jul36	Oct11-Jul36	Oct11-Jul36	Oct11-Feb35	Oct11-Feb31	Oct11-Jul36	Oct11-Jul36

Value in HECM IOs

- Base case IO yields in the 10% range
- Reverse mortgages prepay slowly and are not rate sensitive to high degree
 - Reverse mortgages are non-cashflowing from the borrower (lower sensitivity)
 - High origination fees
 - Fixed-rate HECMs are fully drawn at origination; the borrower is proceeds-sensitive
 - PLF tables from the FHA have a 5% floor (falling rates mean relatively little)
- Risks are manageable
 - Drastic rise in home prices
 - T&I defaults
 - Potential FHA program changes
- Factors in favor of HECM IOs and HMBS value:
 - The sector enjoys relatively low sponsorship
 - HMBS are accrual bonds, which some investors shun
 - Headline risk keeps some investors on the sidelines

Percentage of Industry
Loans in T&I Delinquency

Vintage	Delinquent
pre-2007	8.45%
2007	8.05%
2008	9.87%
2009	7.24%
2010	1.83%
2011	0.05%

Source: Reverse Market Insight

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Recommendation	Investor Action Points (Cash and/or CDS)	Primary Investment Return Driver
Overweight-100%	Up to 100% Overweight of investor's guidelines	Compelling spread tightening potential
Overweight-70%	Up to 70% Overweight of investor's guidelines	Carry, plus some spread tightening expected
Overweight-30%	Up to 30% Overweight of investor's guidelines	Good carry, but little spread tightening expected
Underweight-30%	Down to 30% Underweight of investor's guidelines	Unattractive carry, but spreads unlikely to widen
Underweight-70%	Down to 70% Underweight of investor's guidelines	Expected spread underperformance
Underweight-100%	Down to 100% Underweight of investor's guidelines	Material spread widening expected

Time horizon – our recommendations have a 3 month trade horizon

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