

Refocusing the QRM/Securitization Debate

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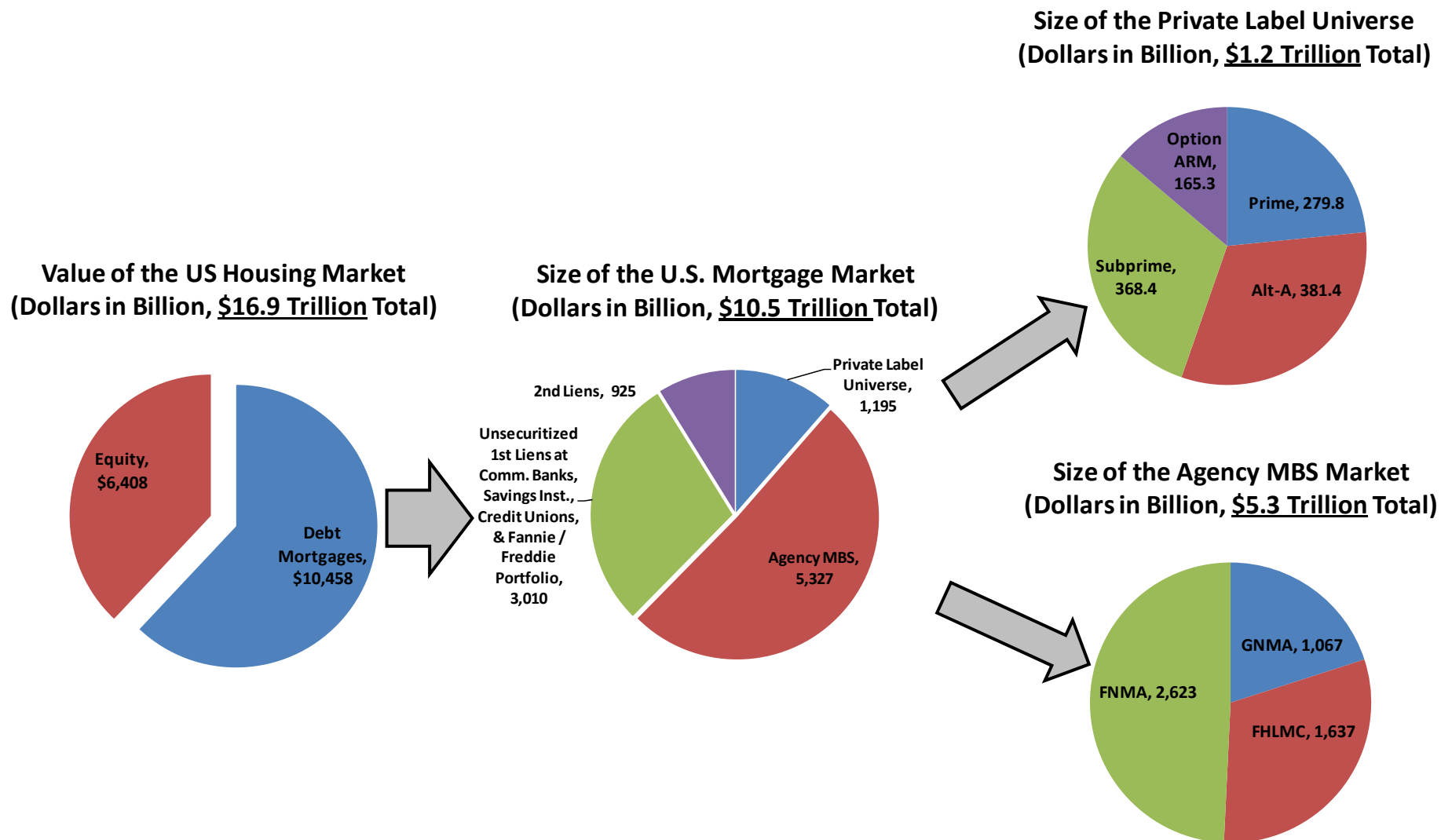


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The US Mortgage Market Size Snapshot



Source: Federal Reserve as of Q1 2011, Fannie Mae, Freddie Mac, Ginnie Mae, CoreLogic, Amherst Securities as of May 2011

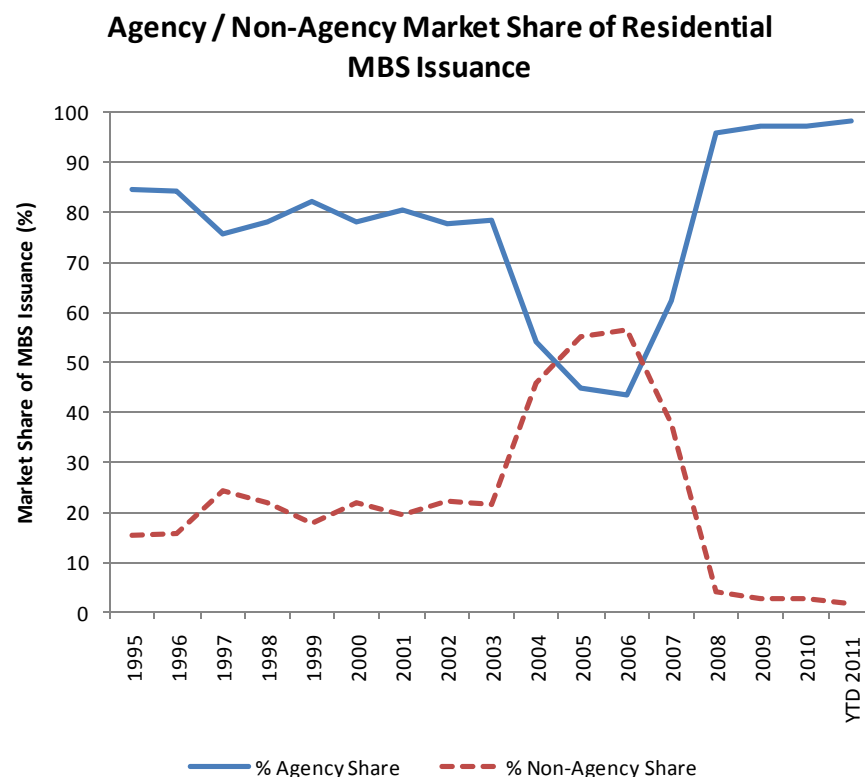
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Residential MBS Issuance In Securitizations

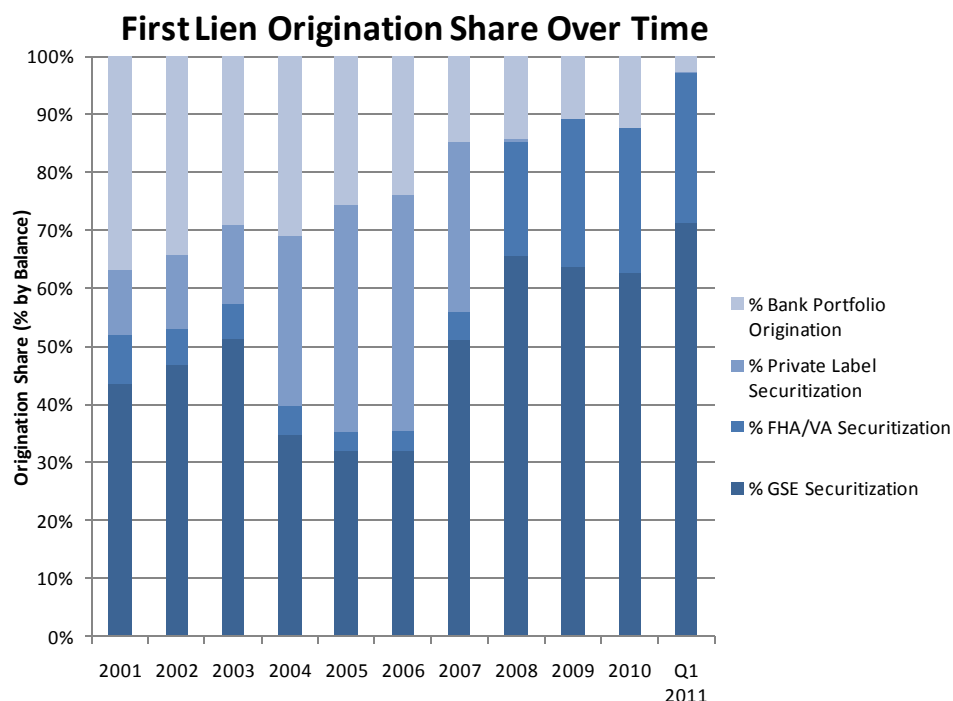
| Date | Total MBS (\$million) | Total Agency MBS (\$ million) | % of Total MBS | | | | | | | | Total Non-Agency |
|----------|-----------------------|-------------------------------|----------------|-------|------|--------------|-------|-------|----------|-------|------------------|
| | | | GNMA | FHLMC | FNMA | Total Agency | Alt-A | Jumbo | Subprime | Other | |
| 1995 | 318,058 | 269,077 | 22.9 | 27.0 | 34.7 | 84.6 | 0.2 | 8.1 | 5.6 | 1.5 | 15.4 |
| 1996 | 440,541 | 370,495 | 22.9 | 27.2 | 34.0 | 84.1 | 0.4 | 7.1 | 7.0 | 1.4 | 15.9 |
| 1997 | 487,016 | 367,697 | 21.3 | 23.5 | 30.7 | 75.5 | 1.3 | 10.3 | 11.7 | 1.2 | 24.5 |
| 1998 | 929,163 | 725,676 | 16.0 | 27.0 | 35.1 | 78.1 | 2.3 | 10.5 | 8.2 | 0.9 | 21.9 |
| 1999 | 832,977 | 685,540 | 18.2 | 28.0 | 36.1 | 82.3 | 1.4 | 9.0 | 6.7 | 0.6 | 17.7 |
| 2000 | 614,970 | 479,062 | 16.8 | 26.9 | 34.2 | 77.9 | 2.7 | 8.7 | 8.5 | 2.2 | 22.1 |
| 2001 | 1,354,819 | 1,087,920 | 12.7 | 28.8 | 38.8 | 80.3 | 0.8 | 10.5 | 6.4 | 2.0 | 19.7 |
| 2002 | 1,858,381 | 1,442,104 | 9.3 | 29.4 | 38.9 | 77.6 | 2.9 | 9.2 | 6.6 | 3.7 | 22.4 |
| 2003 | 2,718,170 | 2,131,045 | 8.0 | 26.3 | 44.1 | 78.4 | 2.7 | 8.7 | 7.2 | 3.0 | 21.6 |
| 2004 | 1,882,836 | 1,018,614 | 6.7 | 19.4 | 28.0 | 54.1 | 8.4 | 12.4 | 19.3 | 5.8 | 45.9 |
| 2005 | 2,156,007 | 965,891 | 4.0 | 18.5 | 22.3 | 44.8 | 15.4 | 13.0 | 21.6 | 5.2 | 55.2 |
| 2006 | 2,070,089 | 900,489 | 4.0 | 17.4 | 22.1 | 43.5 | 17.7 | 12.6 | 21.7 | 4.5 | 56.5 |
| 2007 | 1,867,676 | 1,161,694 | 5.3 | 23.8 | 33.1 | 62.2 | 13.4 | 9.7 | 10.8 | 3.9 | 37.8 |
| 2008 | 1,248,488 | 1,195,618 | 22.4 | 29.2 | 44.2 | 95.8 | 0.2 | 0.6 | 0.2 | 3.3 | 4.2 |
| 2009 | 1,735,385 | 1,687,890 | 25.0 | 27.6 | 44.8 | 97.3 | 0.0 | 0.1 | 0.0 | 2.6 | 2.7 |
| 2010 | 1,417,826 | 1,377,953 | 27.4 | 26.8 | 43.1 | 97.2 | 0.0 | 0.1 | 0.0 | 2.7 | 2.8 |
| 2007-Q1 | 537,136 | 265,345 | 3.4 | 21.3 | 24.7 | 49.4 | 18.0 | 11.2 | 16.5 | 4.9 | 50.6 |
| 2007-Q2 | 548,249 | 289,475 | 4.0 | 21.5 | 27.3 | 52.8 | 18.4 | 11.0 | 13.6 | 4.2 | 47.2 |
| 2007-Q3 | 433,291 | 308,936 | 6.1 | 25.7 | 39.5 | 71.3 | 8.8 | 9.3 | 6.2 | 4.4 | 28.7 |
| 2007-Q4 | 349,000 | 296,301 | 9.1 | 28.8 | 47.0 | 84.9 | 3.9 | 5.5 | 3.3 | 2.4 | 15.1 |
| 2008-Q1 | 345,325 | 323,224 | 11.2 | 33.6 | 48.8 | 93.6 | 0.1 | 1.6 | 0.6 | 4.1 | 6.4 |
| 2008-Q2 | 403,514 | 378,093 | 16.9 | 32.7 | 44.1 | 93.7 | 0.4 | 0.3 | 0.0 | 5.6 | 6.3 |
| 2008-Q3 | 256,132 | 253,827 | 31.8 | 25.6 | 41.7 | 99.1 | 0.0 | 0.2 | 0.0 | 0.7 | 0.9 |
| 2008-Q4 | 243,516 | 240,473 | 37.5 | 21.0 | 40.3 | 98.8 | 0.0 | 0.0 | 0.0 | 1.2 | 1.2 |
| 2009-Q1 | 351,600 | 346,729 | 25.4 | 29.5 | 43.7 | 98.6 | 0.0 | 0.0 | 0.0 | 1.4 | 1.4 |
| 2009-Q2 | 597,957 | 575,447 | 19.2 | 25.1 | 51.9 | 96.2 | 0.0 | 0.0 | 0.0 | 3.8 | 3.8 |
| 2009-Q3 | 457,980 | 449,426 | 28.0 | 26.7 | 43.5 | 98.1 | 0.0 | 0.0 | 0.0 | 1.9 | 1.9 |
| 2009-Q4 | 327,848 | 316,288 | 30.7 | 31.1 | 34.6 | 96.5 | 0.0 | 0.0 | 0.0 | 3.5 | 3.5 |
| 2010-Q1 | 310,872 | 301,940 | 29.0 | 28.2 | 39.9 | 97.1 | 0.03 | 0.0 | 0.0 | 2.8 | 2.9 |
| 2010-Q2 | 296,153 | 284,940 | 32.6 | 25.4 | 38.2 | 96.2 | 0.0 | 0.6 | 0.0 | 3.1 | 3.8 |
| 2010-Q3 | 349,519 | 342,219 | 28.8 | 26.3 | 42.9 | 97.9 | 0.0 | 0.0 | 0.0 | 2.1 | 2.1 |
| 2010-Q4 | 461,282 | 448,854 | 21.8 | 27.1 | 48.5 | 97.3 | 0.0 | 0.0 | 0.0 | 2.7 | 2.7 |
| 2011-Q1 | 357,831 | 349,629 | 22.8 | 26.7 | 48.2 | 97.7 | 0.0 | 0.1 | 0.0 | 2.2 | 2.3 |
| 2011-Q2 | 234,170 | 230,791 | 31.1 | 26.3 | 41.1 | 98.6 | 0.0 | 0.0 | 0.0 | 1.4 | 1.4 |
| 2011-Apr | 81,352 | 79,945 | 29.3 | 26.5 | 42.4 | 98.3 | 0.0 | 0.0 | 0.0 | 1.7 | 1.7 |
| 2011-May | 72,791 | 71,671 | 32.8 | 26.5 | 39.2 | 98.5 | 0.0 | 0.0 | 0.0 | 1.5 | 1.5 |
| 2011-Jun | 80,027 | 79,175 | 31.5 | 25.8 | 41.6 | 98.9 | 0.0 | 0.0 | 0.0 | 1.1 | 1.1 |



Source : Inside MBS & ABS,
CoreLogic, Amherst Securities

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 | \$ 3,945.0 | \$ 2,025.3 | \$ 231.4 | \$ 2,256.8 | \$ 536.5 | \$ 1,147.0 |
| % of Total Origination | 100.0% | 51.3% | 5.9% | 57.2% | 13.6% | 29.1% |
| Estimated originations 2004 | \$ 2,927.0 | \$ 1,015.5 | \$ 143.8 | \$ 1,159.3 | \$ 858.6 | \$ 903.9 |
| % of Total Origination | 100.0% | 34.7% | 4.9% | 39.6% | 29.3% | 30.9% |
| Estimated originations 2005 | \$ 3,118.0 | \$ 995.7 | \$ 96.9 | \$ 1,092.6 | \$ 1,221.0 | \$ 795.0 |
| % of Total Origination | 100.0% | 31.9% | 3.1% | 35.0% | 39.2% | 25.5% |
| Estimated originations 2006 | \$ 2,983.0 | \$ 954.5 | \$ 97.2 | \$ 1,051.7 | \$ 1,207.3 | \$ 714.1 |
| % of Total Origination | 100.0% | 32.0% | 3.3% | 35.3% | 40.5% | 23.9% |
| Estimated originations 2007 | \$ 2,431.0 | \$ 1,243.6 | \$ 115.5 | \$ 1,359.1 | \$ 715.0 | \$ 356.8 |
| % of Total Origination | 100.0% | 51.2% | 4.7% | 55.9% | 29.4% | 14.7% |
| Estimated originations 2008 | \$ 1,485.0 | \$ 974.6 | \$ 291.4 | \$ 1,266.0 | \$ 9.2 | \$ 209.8 |
| % of Total Origination | 100.0% | 65.6% | 19.6% | 85.3% | 0.6% | 14.1% |
| Estimated originations 2009 | \$ 1,815.0 | \$ 1,155.8 | \$ 466.0 | \$ 1,621.8 | \$ - | \$ 193.2 |
| % of Total Origination | 100.0% | 63.7% | 25.7% | 89.4% | 0.0% | 10.6% |
| Estimated originations 2010 | \$ 1,559.0 | \$ 976.2 | \$ 388.1 | \$ 1,364.3 | \$ 0.2 | \$ 194.5 |
| % of Total Origination | 100.0% | 62.6% | 24.9% | 87.5% | 0.0% | 12.5% |
| Estimated originations Q1 2011 | \$ 325.0 | \$ 231.6 | \$ 84.1 | \$ 315.7 | \$ 0.3 | \$ 8.9 |
| % of Total Origination | 100.0% | 71.3% | 25.9% | 97.2% | 0.1% | 2.8% |



Source : CoreLogic, Inside MBS & ABS

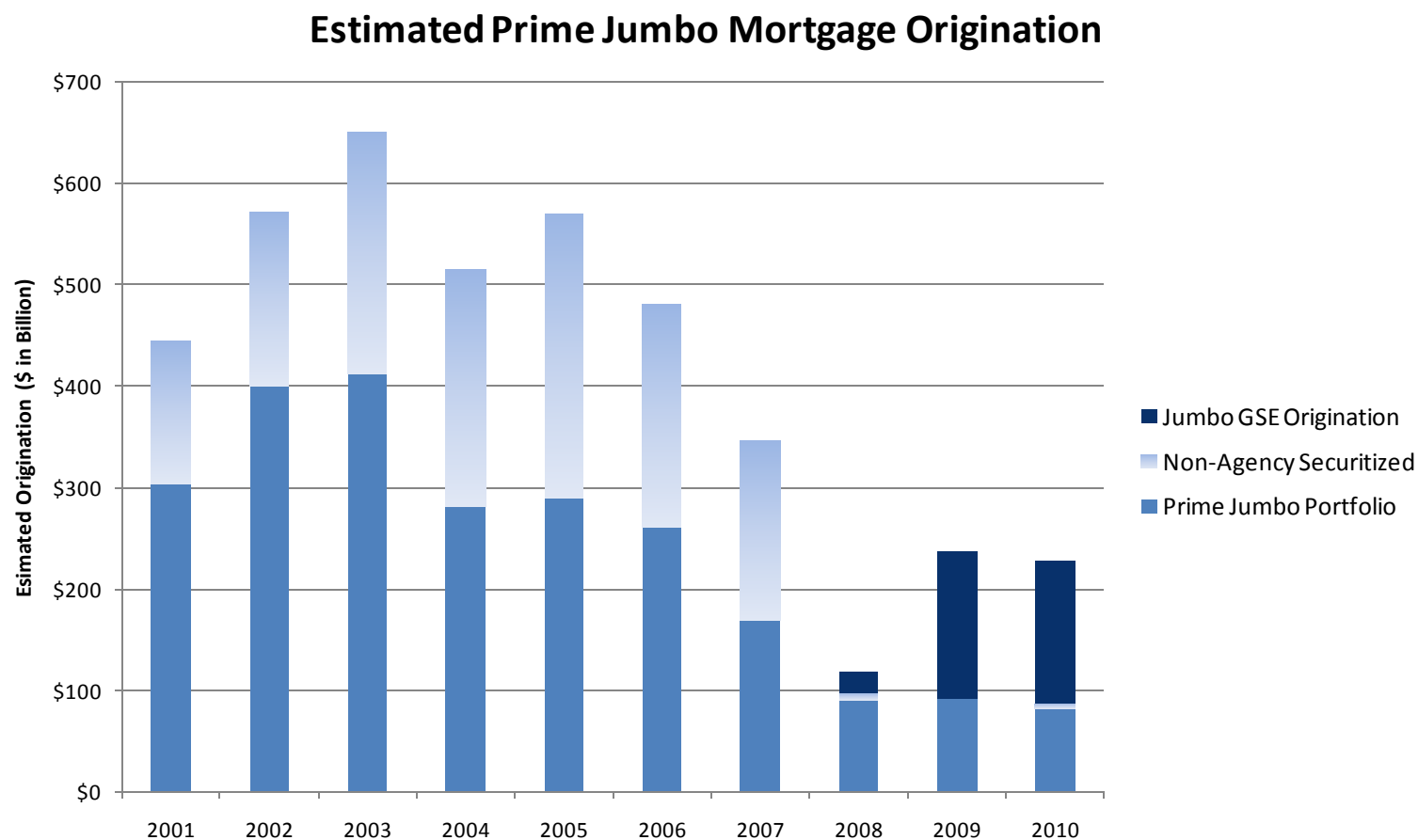
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Can The Private Markets Provide Financing to Housing? Not Without Securitization



Source: Inside MBS & ABS, CoreLogic, Amherst Securities

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Sizing the Crisis

| | DQ Status | Number of Loans | % of Loans | Total Balance | % by Balance | WA MTM LTV | 3Mo cTr | 3Mo vPr | 3Mo D/TV |
|--------------------|---------------------|-------------------|------------|--------------------------|--------------|------------|---------|---------|----------|
| Total | NPL | 4,501,006 | 8.2% | 943,380,507,426 | 9.9% | 118.5 | - | - | - |
| Total | RPL | 3,836,392 | 7.0% | 653,918,485,660 | 6.9% | 105.3 | 43.7% | 2.7% | 94.2% |
| Total | APL >120 MTM LTV | 2,761,985 | 5.0% | 542,840,326,323 | 5.7% | 140.9 | 13.8% | 5.7% | 70.9% |
| Total | APL 100-120 MTM LTV | 5,541,784 | 10.1% | 1,088,499,455,331 | 11.4% | 110.7 | 6.4% | 7.5% | 45.8% |
| Total | APL <=100 MTM LTV | 38,427,579 | 69.8% | 6,278,580,877,681 | 66.0% | 68.6 | 2.2% | 12.8% | 14.9% |
| Grand Total | | 55,068,746 | | 9,507,219,652,421 | | | | | |

| Total Number of Loans | Estimated Default Rate | | Number of Homes in Jeopardy | |
|-----------------------|------------------------|---------------------|-----------------------------|---------------------|
| | Lower Bound Estimate | Reasonable Estimate | Lower Bound Estimate | Reasonable Estimate |
| 4,501,006 | 80% | 90% | 3,600,805 | 4,050,906 |
| 3,836,392 | 50% | 65% | 1,918,196 | 2,493,655 |
| 2,761,985 | 25% | 40% | 690,496 | 1,104,794 |
| 5,541,784 | 10% | 15% | 554,178 | 831,268 |
| 38,427,579 | 4% | 5% | 1,537,103 | 1,921,379 |
| Total | | | 8,300,779 | 10,402,001 |

| | DQ Status | Number of Loans | % of Loans | Total Balance | % by Balance | WA MTM LTV | 3Mo cTr | 3Mo vPr | 3Mo D/TV |
|-----------------|---------------------|-------------------|------------|--------------------------|--------------|------------|---------|---------|----------|
| * NonPLS | NPL | 3,137,323 | 6.2% | 573,778,827,117 | 6.9% | 114.2 | - | - | - |
| NonPLS | RPL | 2,899,014 | 5.7% | 450,349,348,192 | 5.4% | 100.2 | 42.7% | 3.4% | 92.6% |
| NonPLS | APL >120 MTM LTV | 2,363,876 | 4.7% | 433,734,690,632 | 5.2% | 148.9 | 12.3% | 6.6% | 65.1% |
| NonPLS | APL 100-120 MTM LTV | 5,226,689 | 10.4% | 986,096,900,782 | 11.8% | 106.7 | 5.7% | 7.8% | 42.2% |
| NonPLS | APL <=100 MTM LTV | 36,851,753 | 73.0% | 5,883,920,719,767 | 70.7% | 68.4 | 2.0% | 12.7% | 13.6% |
| Subtotal | | 50,478,655 | | 8,327,880,486,490 | | | | | |

| | DQ Status | Number of Loans | % of Loans | Total Balance | % by Balance | WA MTM LTV | 3Mo cTr | 3Mo vPr | 3Mo D/TV |
|-----------------|---------------------|------------------|------------|--------------------------|--------------|------------|---------|---------|----------|
| PLS | NPL | 1,363,683 | 29.7% | 369,601,680,309 | 31.3% | 125.3 | - | - | - |
| PLS | RPL | 937,378 | 20.4% | 203,569,137,468 | 17.3% | 116.5 | 45.8% | 1.0% | 97.8% |
| PLS | APL >120 MTM LTV | 398,109 | 8.7% | 109,105,635,691 | 9.3% | 108.9 | 19.6% | 1.9% | 91.1% |
| PLS | APL 100-120 MTM LTV | 315,094 | 6.9% | 102,402,554,549 | 8.7% | 149.5 | 12.7% | 4.8% | 72.6% |
| PLS | APL <=100 MTM LTV | 1,575,826 | 34.3% | 394,660,157,914 | 33.5% | 71.9 | 5.8% | 13.8% | 29.7% |
| Subtotal | | 4,590,091 | | 1,179,339,165,931 | | | | | |

Legend:

NPL = Non-Performing Loans

RPL = Re-Performing Loans

APL = Always Performing Loans

Non-PLS = Agency/Portfolio Loans

PLS = Private Label Securitized Loans

cTr = Annualized Monthly New Default Transition Rate

vPr = Annualized Voluntary Prepay Rate

D/TV = cTr / (cTr + vPr)

The estimated default rates used in the “reasonable” calculation are more conservative than what is currently being experienced

Assumes no change in overall housing prices, interest rates, or new home construction

* - CoreLogic reports on approximately 60% of the non-PLS universe, which is extrapolated to the entire mortgage market

Source: CoreLogic, Amherst Securities as of June 2011

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A Breakdown of Non-Performing Loans

| Total Mortgage Market | | | | |
|-----------------------|-----------|------------|--------------------|--------------|
| NPL Status | Count | % of Loans | Balance | % of Balance |
| 60 Days DQ | 606,958 | 13.5% | \$ 104,203,035,359 | 11.0% |
| 90+ Days DQ | 1,777,636 | 39.5% | \$ 380,171,729,680 | 40.3% |
| Foreclosure | 1,804,899 | 40.1% | \$ 395,424,872,404 | 41.9% |
| REO | 311,514 | 6.9% | \$ 63,580,869,983 | 6.7% |
| Grand Total | 4,501,006 | 100.0% | \$ 943,380,507,426 | 100.0% |

| Non-PLS Universe * | | | | |
|--------------------|-----------|------------|--------------------|--------------|
| NPL Status | Count | % of Loans | Balance | % of Balance |
| 60 Days DQ | 467,030 | 14.9% | \$ 74,343,065,199 | 13.0% |
| 90+ Days DQ | 1,227,805 | 39.1% | \$ 233,356,190,337 | 40.7% |
| Foreclosure | 1,250,277 | 39.9% | \$ 235,779,138,297 | 41.1% |
| REO | 192,211 | 6.1% | \$ 30,300,433,282 | 5.3% |
| Subtotal | 3,137,323 | 100.0% | \$ 573,778,827,115 | 100.0% |

| PLS Universe | | | | |
|--------------|-----------|------------|--------------------|--------------|
| NPL Status | Count | % of Loans | Balance | % of Balance |
| 60 Days DQ | 139,928 | 10.3% | \$ 29,859,970,159 | 0.08079 |
| 90+ Days DQ | 549,831 | 40.3% | \$ 146,815,539,343 | 39.7% |
| Foreclosure | 554,622 | 40.7% | \$ 159,645,734,107 | 43.2% |
| REO | 119,302 | 8.7% | \$ 33,280,436,701 | 9.0% |
| Subtotal | 1,363,683 | 100.0% | \$ 369,601,680,309 | 100.0% |

Legend:

REO = Real Estate Owned

* - CoreLogic reports on approximately 60% of the non-PLS universe, which is extrapolated to the entire mortgage market

Source: CoreLogic, Amherst Securities as of June 2011

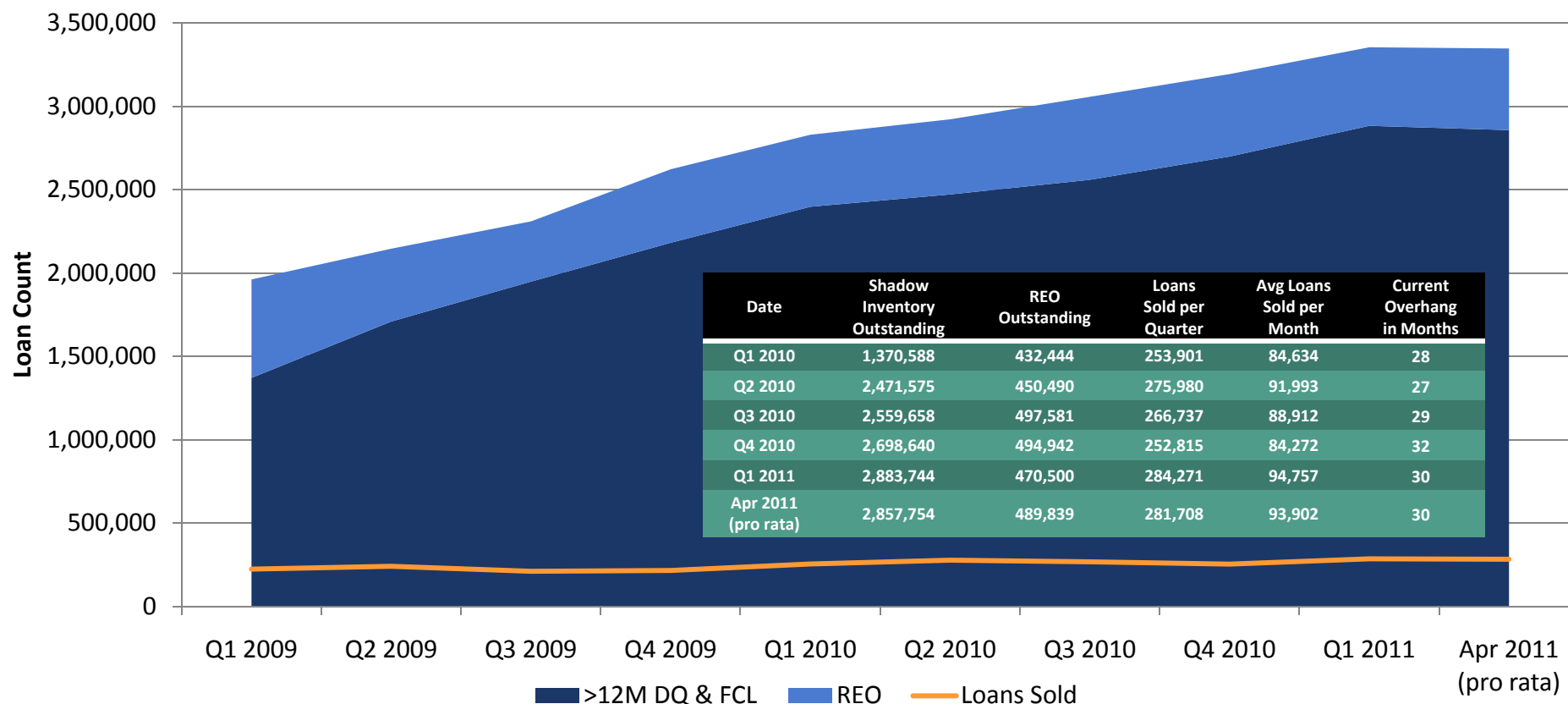
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Growth of the Shadow Inventory



- 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, Amherst Securities

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Mortgage Market Math: Supply/Demand Gap

- 10.40 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 8.3 million units.

Estimate of Supply (per Year)

$$\begin{array}{r} 1.38 - 1.73 \text{ million distressed units per year} \\ + \quad 0.40 \text{ million units new construction} \\ \hline 1.78 - 2.13 \text{ million units total annual supply} \end{array}$$

Estimate of Housing Demand (per Year)

$$\begin{array}{r} 0.60 \text{ million demand due to demographics (1.00 million housing formation x 0.60 home ownership)} \\ 0.40 \text{ million obsolescence} \\ + \quad 0.20 \text{ million second home purchase} \\ \hline 1.20 \text{ million units total annual demand} \end{array}$$

$$\begin{array}{r} 1.78 - 2.13 \text{ million total supply per year} \\ - \quad 1.20 \text{ million total demand per year} \\ \hline 0.58 - 0.93 \text{ million units net annual supply} \end{array}$$

Over the next 6 years:

$$3.5 - 5.6 \text{ million units}$$

- To solve the housing crisis you must create **3.5 to 5.6 million units** of housing demand over the next 6 years.

Source: CoreLogic Prime Servicing Database, CoreLogic Securitized Loan Database, Amherst Securities

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The Supply & Demand Function of Housing Is Broken

| Status since June 2007 | Loan Count | % of Loans |
|--------------------------------|------------|------------|
| Prepaid | 19,892,400 | 36% |
| Never 90 days DQ | 24,549,503 | 45% |
| Reached 90+ DQ | 7,400,774 | 14% |
| Defaulted | 2,954,733 | 5% |
| Total Universe as of June 2007 | 54,797,410 | 100% |

*Based upon payment history of mortgages originated before June 2007,
19% of all homeowners **NO LONGER QUALIFY** for a mortgage loan based solely upon Payment History.*

We have only liquidated ~26% of the loans that are in trouble

Source: CoreLogic, Amherst Securities



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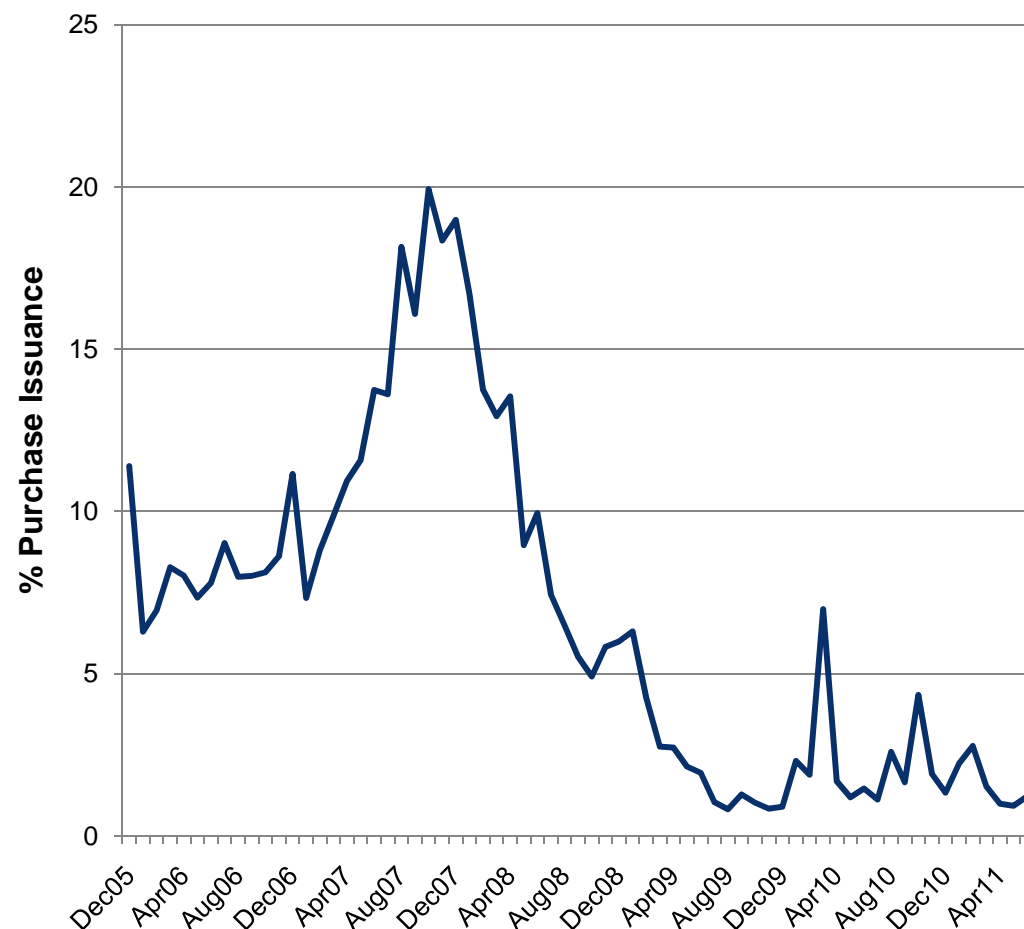
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GSE Origination Characteristics Are Quite High

Origination Characteristics (excluding HARP refi loans)

| Orig Year | Orig FICO | % FICO < 675 | Orig LTV | % Orig LTV > 80 | % Balance > 90 LTV |
|-----------|-----------|--------------|----------|-----------------|--------------------|
| 2010 | 762 | 3 | 67 | 7 | 3 |
| 2009 | 762 | 3 | 66 | 7 | 2 |
| 2008 | 741 | 11 | 71 | 19 | 8 |
| 2007 | 723 | 21 | 74 | 20 | 12 |
| 2006 | 726 | 19 | 73 | 13 | 6 |

% Purchase Issuance, LTV > 80 & FICO < 700



Source: Freddie Mac Loan Level Data, Amherst Securities

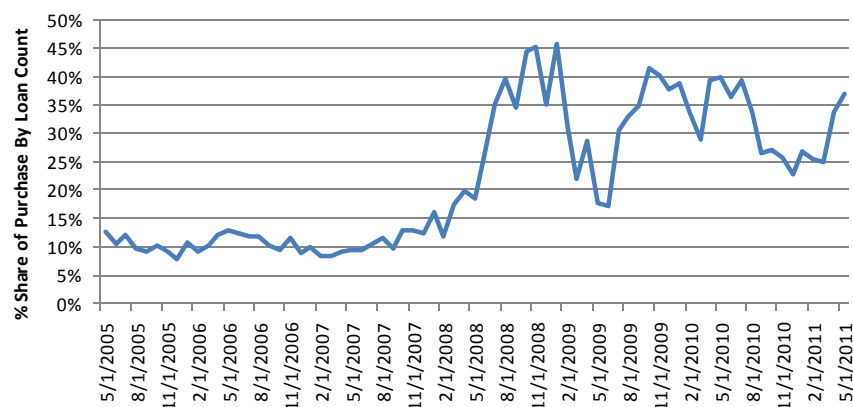


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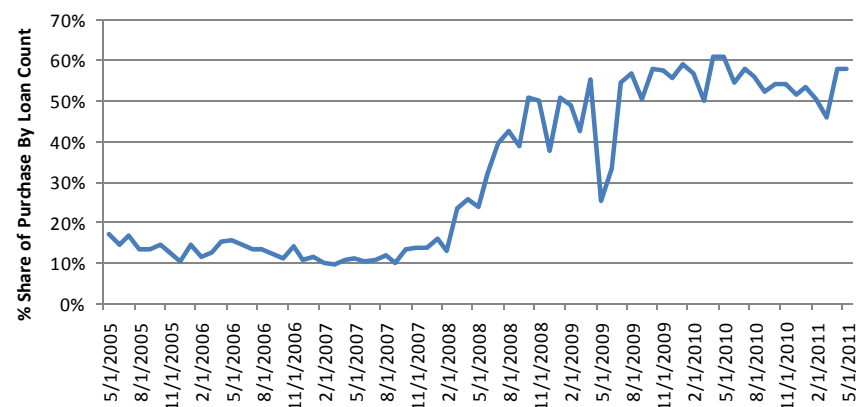
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GNMA Has Become The Major Outlet For Purchasing A Home (All Are %s In Loan Count Terms)

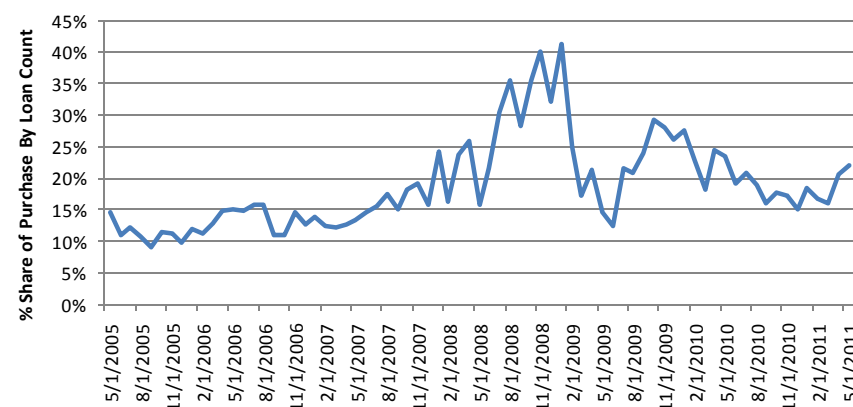
GNMA Share of Total Agency Volume



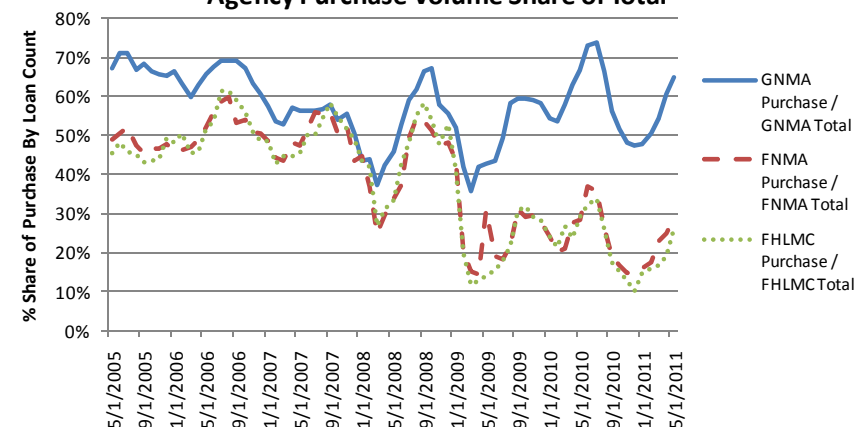
GNMA Share of Purchase Volume



GNMA Share of Total Refi Volume



Agency Purchase Volume Share of Total



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

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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 mortgage 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



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% | \$ 286,497,878,371.00 |
| 1998 | 23.29% | 13.30% | 17.10% | 6.24% | 2.17% | \$ 691,033,994,509.00 |
| 1999 | 19.48% | 14.83% | 12.95% | 5.37% | 3.16% | \$ 481,450,519,442.00 |
| 2000 | 16.44% | 17.00% | 8.40% | 4.53% | 3.70% | \$ 356,779,731,420.00 |
| 2001 | 19.37% | 14.33% | 13.11% | 4.62% | 3.01% | \$ 1,039,412,013,403.00 |
| 2002 | 22.37% | 15.35% | 10.72% | 4.62% | 4.28% | \$ 1,385,056,256,240.00 |
| 2003 | 24.57% | 16.68% | 10.02% | 4.98% | 4.55% | \$ 1,924,265,340,603.00 |
| 2004 | 17.03% | 17.68% | 6.25% | 4.34% | 6.35% | \$ 937,643,914,289.00 |
| 2005 | 14.41% | 18.78% | 5.45% | 3.36% | 6.74% | \$ 939,069,358,457.00 |
| 2006 | 11.52% | 17.59% | 3.91% | 2.73% | 7.11% | \$ 887,443,942,464.00 |
| 2007 | 10.72% | 16.14% | 4.95% | 2.24% | 5.44% | \$ 1,027,460,511,244.00 |
| 2008 | 17.39% | 22.01% | 9.22% | 2.12% | 4.64% | \$ 793,136,249,487.00 |
| 2009 | 30.52% | 24.47% | 15.26% | 1.74% | 3.38% | \$ 1,176,445,135,548.00 |
| Total | 19.79% | 17.36% | 9.86% | 3.91% | 4.62% | \$ 11,925,694,845,477.00 |

Source: OCC Docket No. OCC-2011-0002



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Largest Servicers Also Own A Large Share Of Second Liens

| Q1 2011 FR Y 9C REPORT | | | | | | | | |
|------------------------|----------------------|----------|-----------|----------------------|---------------------------------------|--------------------------|-------------------------------|--------------------------------|
| Originator | 1 4 Family Servicing | | 1st Liens | Closed End 2nd Liens | Residential Revolving Lines of Credit | Share of Total Revolving | Total Revolving and 2nd Liens | Tangible Common Equity Capital |
| | Q1 11 | Q1 Share | | | | | | |
| Bank of America | \$ 2,040.7 | 19% | \$ 292.1 | \$ 22.3 | \$ 107.7 | 17% | \$ 130.0 | \$ 132.0 |
| Wells Fargo | \$ 1,807.7 | 17% | \$ 235.9 | \$ 15.4 | \$ 99.5 | 16% | \$ 114.9 | \$ 87.9 |
| JP Morgan Chase | \$ 1,233.0 | 12% | \$ 139.7 | \$ 9.3 | \$ 92.8 | 15% | \$ 102.1 | \$ 120.7 |
| Citigroup | \$ 584.4 | 6% | \$ 112.9 | \$ 20.3 | \$ 28.9 | 5% | \$ 49.2 | \$ 139.3 |
| Total Top 4 | \$ 5,665.8 | 54% | \$ 780.7 | \$ 67.4 | \$ 328.8 | 52% | \$ 396.2 | \$ 479.9 |
| Total | \$ 10,540.0 | | | | \$ 636.9 | | \$ 928.8 | |

Notes:

-Individual bank data from Q1 2011 FRB Data

-Total 1-4 Family Servicing from Inside Mortgage Finance

-Total Residential Revolving Lines of Credit Refers To Revolving Lines of Credit held at FDIC

Insured Institutions. It is not the total universe.

-Total Revolving Second and Second Liens Total and by Investor is from Fed Flow of Funds Data (Z1)

Total Revolving and 2nd Liens By Investor:

| | | |
|----------------------|-----------|--------------|
| All Commerical Banks | \$ | 692.3 |
| Credit Unions | \$ | 86.1 |
| Savings Institutions | \$ | 72.3 |
| Finance Companies | \$ | 54.4 |
| ABS Issuers | \$ | 23.7 |
| TOTAL | \$ | 928.8 |

Source: Inside Mortgage Finance, Federal Reserve, FDIC, Amherst Securities

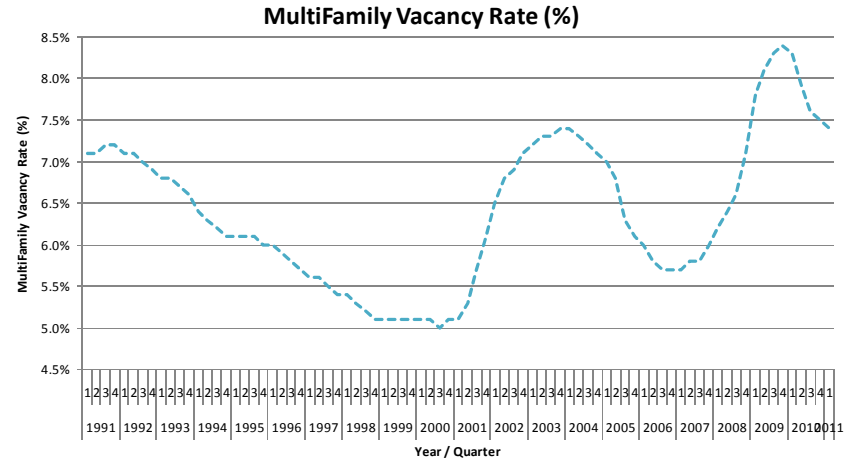
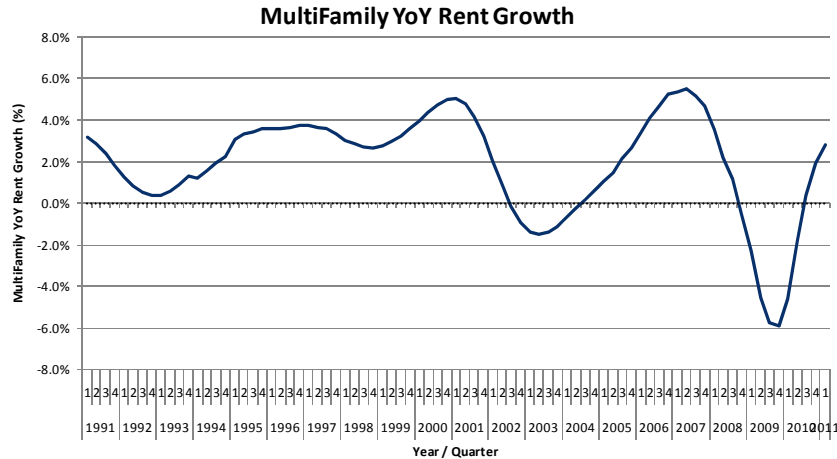


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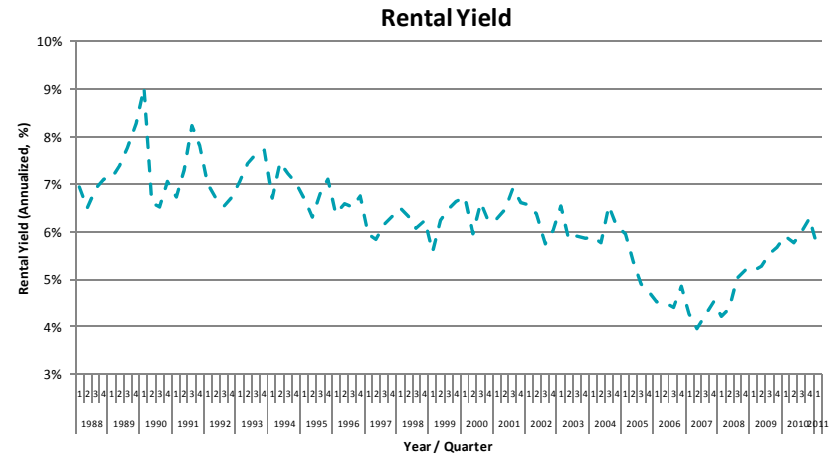
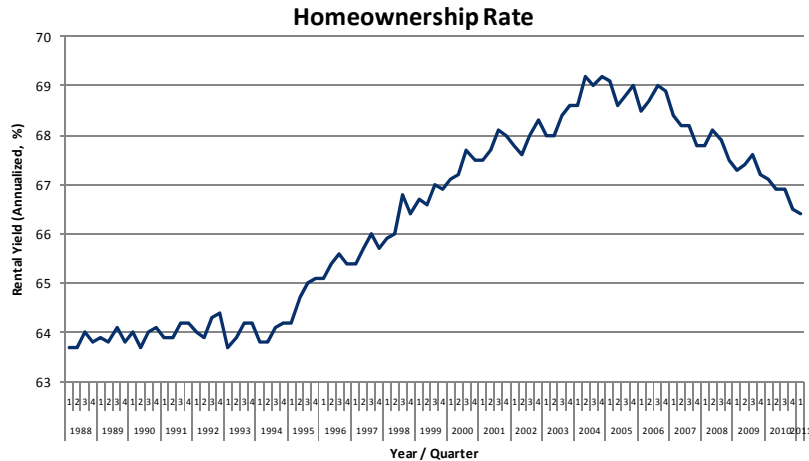
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Rental Demand Is Outpacing Rental Supply

Multifamily Rents Are Up, Vacancies Are Down



Residential Homeownership Has Declined, Rental Yield Has Increased



* - Rental Yield = Median Rent / Median Sales Price

Source: US Census, PPR, Amherst Securities

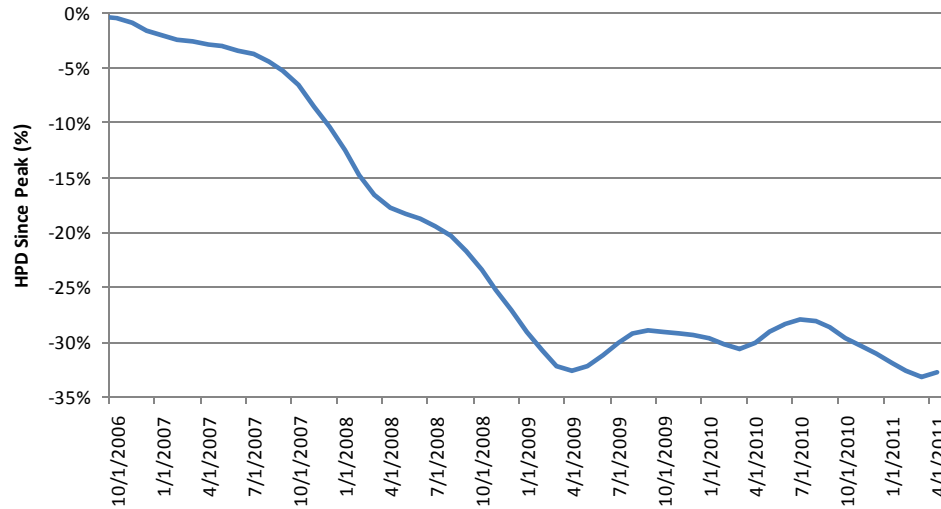


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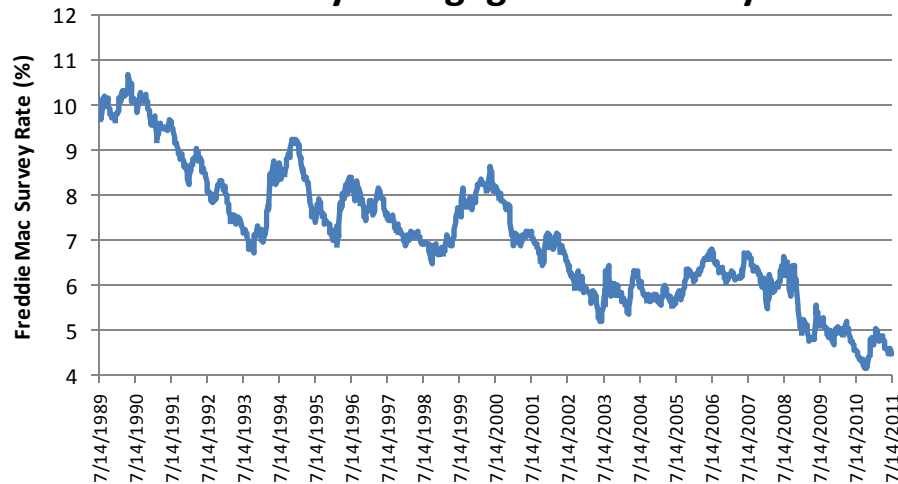
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Prices Down, Rates Low → Affordability is at a 20 Year High

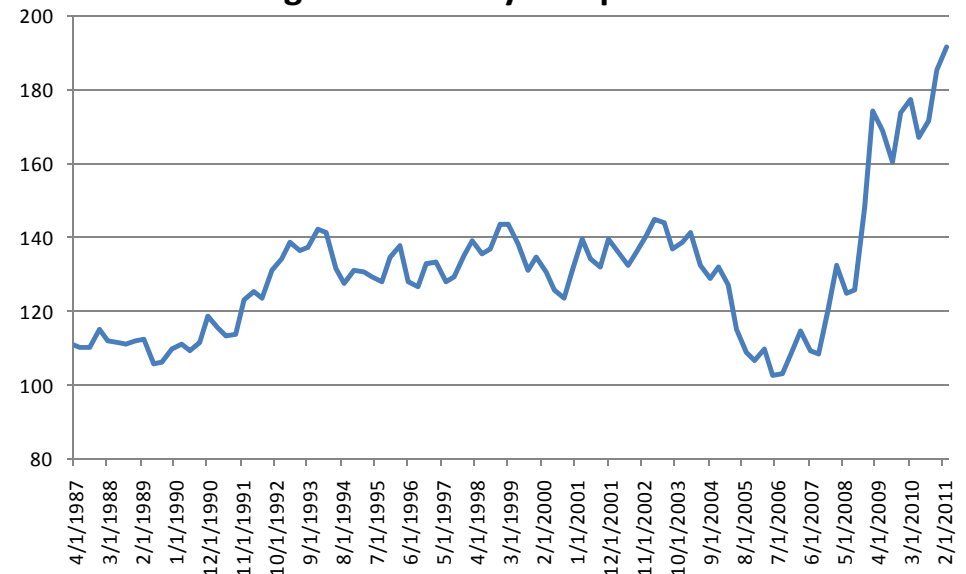
S&P/CS Cumulative HPD Since 2006 Peak



Primary Mortgage Rate History



Housing Affordability Composite Index



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

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What Does it Take to Re-Start Private Label Securitization?

- The Regulatory Rules of Engagement Must Be Established
 - Risk Retention & QRM
 - QM
- 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
- Governance Standards For Securitizations Need To Be Set—Conflicts of Interest Addressed
- Credit Standards Need to be Wider—Lack of Demand at Current Credit Standards
- 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.



When Does Securitization Begin Again?

Mid-July 2011

A simple prime jumbo fixed securitization would require a **5.375%** Mortgage Rate to target a \$99-17+ price, 4.32% yield senior bond (2.75 points or ~60bps behind agencies):

| | Size (\$mm) | WAL | NWAC | Price | Yield (%) |
|-----------------|-------------|------|--------|--------|-----------|
| NET COLLATERAL | \$100 | 7.7 | 5.125% | 100.30 | 5.06 |
| Senior Tranches | \$92 | 7.2 | 4.32% | 99.55 | 4.32 |
| Senior IO | \$92 | 7.2 | 0.875% | 3.50 | 11.43 |
| Subordinates | \$8 | 12.4 | 5.125% | 68.65 | 10.00 |
| Proceeds | | | | 100.30 | |

Costs to Originate = \$100.00 loans + \$1.00 costs + \$0.30 profit = \$101.30

Proceeds from Deal = \$100.30 bonds + \$1.25 servicing – \$0.25 deal fees = \$101.30

Assuming 25bps of servicing priced at a 5x multiple and a AAA IO priced at a 4x multiple above, a **5.375%** GWAC pool of loans would create a breakeven securitization. Jumbo rates are now 4.91%; an economic securitization would require rates to be **47 bps** (5.38% – 4.91%) above jumbos or **87 bps** (5.38% – 4.51%) above agencies.



Risk Retention Does Not Resolve Conflicts of Interest

Major Conflicts of Interest in Securitizations:

- Originators who are also portfolio lenders may be incented to adversely select loans for
- Underwriters (deal sponsors) are generally incented to select loans and structures to maximize profit—i.e., to push adverse selection to the market limit
- Trustees are responsible for the enforcement of representations and warranties (reps and warrants), but the servicers are the only ones with the information to detect the violations.
- Servicers are often 2nd lien investors
- Servicers may have additional items on their agenda, resulting in a failure to maximize the NPV of the loans
- Goals of different investor groups are not necessarily aligned
- Rating agencies are issuer paid



Premium Recapture & Re-REMIC Provisions—Misconceived

- Premium Recapture Provisions need to be clarified. The goal was to prevent an upfront “Profit” on the securitization that would negate the impact of the risk retention, it has some unintended consequences.
- Was risk retention meant to be 5% of the par amount or the market value?
 - If par amount, it does not allow for the costs of origination.
 - If par amount, it would make rate locks less available.
 - If par amount, hedging the loan during the securitization period would be more difficult.
- Risk Retention would be required on virtually all re-securitizations. This doesn't make sense to us.
 - The goal of a re-securitization is to create a multi-tranche deal that better first the need of investors. No new risk is being created.
 - If the goal of risk retention is better-quality loans, it makes no sense to apply risk retention to pre-existing assets.



Conclusions

1. US Housing Market is in a very fragile condition. There is a huge overhang of severely delinquent and foreclosed homes. The problem is exacerbated by very limited credit availability.
2. A vibrant securitization market is essential to return liquidity and affordability to housing finance. QRM is critical to securitization.
3. To stabilize the housing market, you need standards broad enough to encourage the prudent extension of credit to qualified borrowers, and a framework that encourages the securitization of these loans.



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