

Focus on Residential Mortgage Backed Securities

March 30, 2012

In this issue

The use of principal reduction as a tool to modify loans has increased over the past year and is required under the recent multi-state Attorneys General (“AG”) settlement. This raises concerns for Non-Agency bondholders who may be adversely impacted from excessive principal forgiveness. The following analysis identifies which borrowers are receiving principal forgiveness and what are the differences in performance for borrowers who are getting principal forgiveness versus borrowers whose loans are being modified without principal forgiveness.

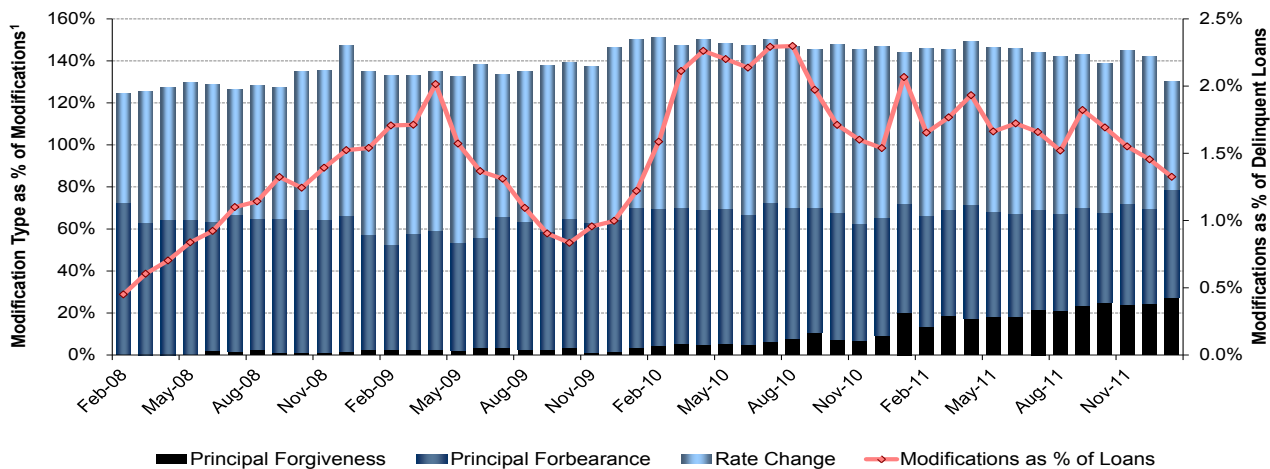
Preliminary Results

So far, the data shows that better performance is dependent upon the amount of reduction in mortgage payment and not necessarily on the type of modification. On the other hand, larger amounts of principal forgiveness enable a greater reduction in monthly mortgage payments, resulting in better performance.

Due to political and public pressure to forgive principal for struggling homeowners, modifications that forgive principal have increased over the past year. The Home Affordable Modification Program (“HAMP”) is now reimbursing Servicers up to 63 cents per dollar of principal forgiven.

Recent efforts to stabilize housing have once again raised concerns of public policy and moral hazard.

All Modifications



¹ Sum of modification types can exceed 100% because some loans have both rate and principal modifications.

Characteristics of Modified Loans

	All Modifications	Modifications without Principal Forgiveness	Modifications with Principal Forgiveness
Number of Loans	1,043,396	953,441	89,955
Loan Balance	258,701,772,423	238,788,986,536	19,912,785,888
Average Balance	247,942	250,450	221,364
% Owner Occupied*	94.8%	94.6%	97.5%
% Silent Second*	29.8%	29.8%	29.4%
FICO	641	640	651
Single-Family Residence*	87.6%	87.7%	87.1%
LOAN PURPOSE			
Purchase	35.7%	35.9%	32.8%
Cash-out Refinance	52.9%	52.7%	55.7%
Gross WAC (Before Modification)	6.93	7.05	5.47
Gross WAC (After Modification)	4.14	4.23	3.12
CURRENT LTV (Before Modification)*			
> 80 <=100	24.9%	25.7%	14.9%
> 100 <=125	31.4%	31.4%	32.0%
> 125 <=150	18.5%	18.0%	24.4%
> 150 <=200	13.4%	12.7%	21.4%
PAYMENT CHANGE (%)*			
>=30% payment reduction	38.3%	36.8%	56.7%
No change or up to 30% reduction	50.8%	51.7%	40.1%
Payment increase	10.8%	11.5%	3.2%
PRODUCT TYPE*			
Subprime	65.4%	65.7%	61.2%
Average Balance	214,198	216,394	189,436
Current LTV (Before Modification)	114.64	113.30	131.90
Current LTV (After Modification)	117.95	119.22	101.62
ALT-A	22.6%	22.7%	22.5%
Average Balance	323,143	327,086	282,011
Current LTV (Before Modification)	114.44	113.74	122.83
Current LTV (After Modification)	117.66	119.19	99.14
Option Arm	12.0%	11.6%	16.3%
Average Balance	427,050	441,774	332,695
Current LTV (Before Modification)	132.96	132.37	137.96
Current LTV (After Modification)	132.52	135.31	108.82
RATE TYPE			
Fixed	17.5%	17.7%	14.9%
Hybrid ARM/Interest-only	82.5%	82.3%	85.1%

*% of loan balance

Source: CoreLogic, Falcon Bridge Capital

The adjacent table highlights certain borrower, loan, and property characteristics for loans that have been modified since 2008

Principal forgiveness results in a greater payment reduction

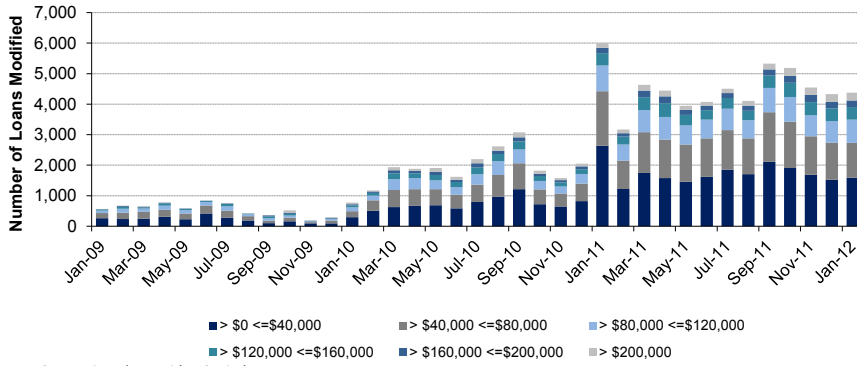
Borrowers who monetized inflated property values are benefitting from principal forgiveness

The majority of modifications were completed for Subprime borrowers (65.4%), followed by Alt-A (22.6%), and then Option Arm (12.0%)

Higher LTV borrowers require principal forgiveness to reduce the monthly mortgage payment

Performance Trends on Loans with Principal Forgiveness

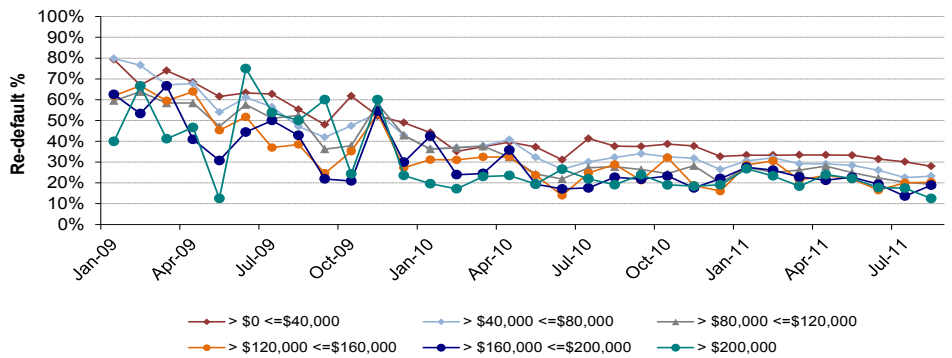
Modified Loans by Forgiveness Amount



Roughly 65% of borrowers that received principal forgiveness had their outstanding loan balance reduced by up to \$80,000...

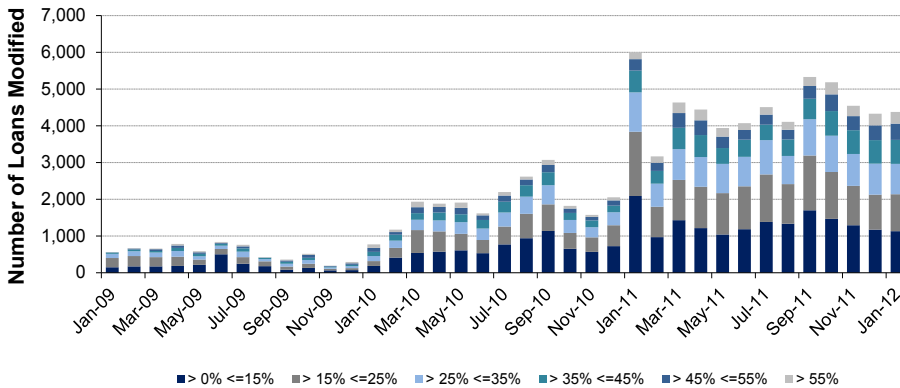
Source: CoreLogic, Falcon Bridge Capital

Modified Loans by Forgiveness Amount



Source: CoreLogic, Falcon Bridge Capital

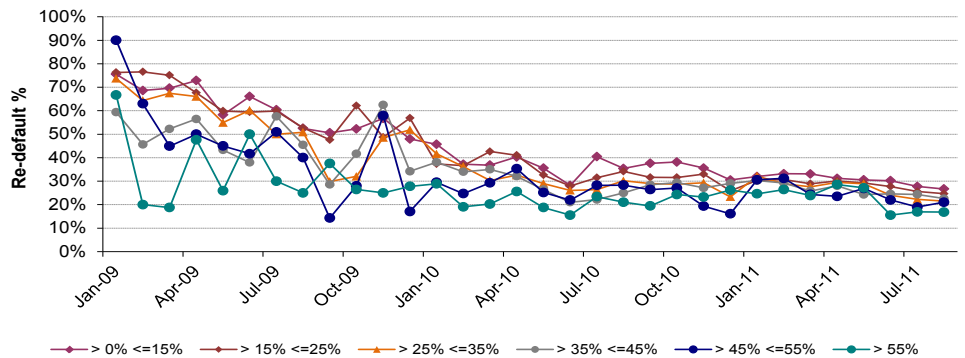
Modified Loans by % Forgiveness



which translates to approximately 30% of the loan balance.

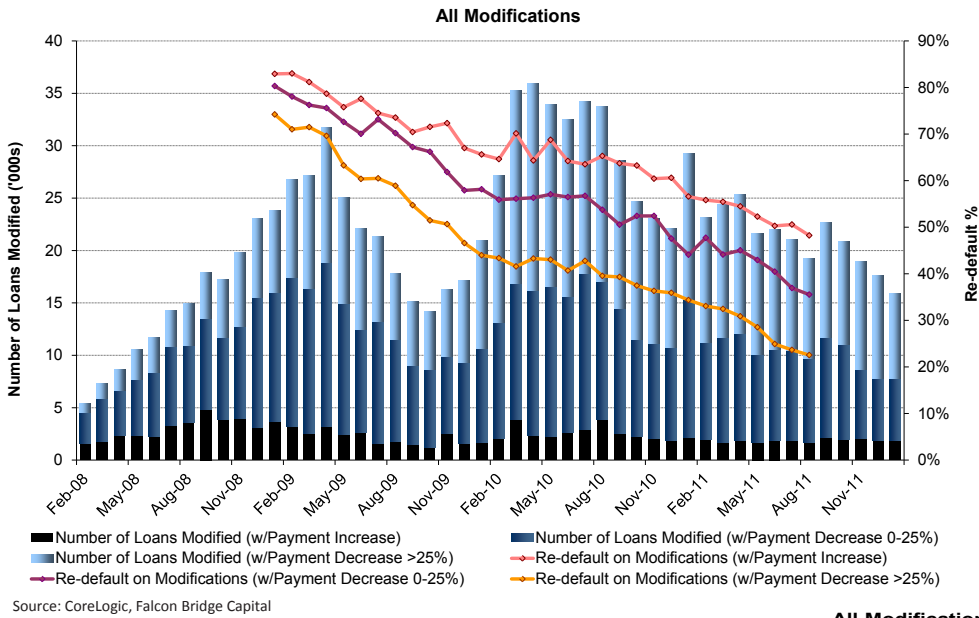
Source: CoreLogic, Falcon Bridge Capital

Modified Loans by % Forgiveness



Source: CoreLogic, Falcon Bridge Capital

Performance Trends of Modified Loans

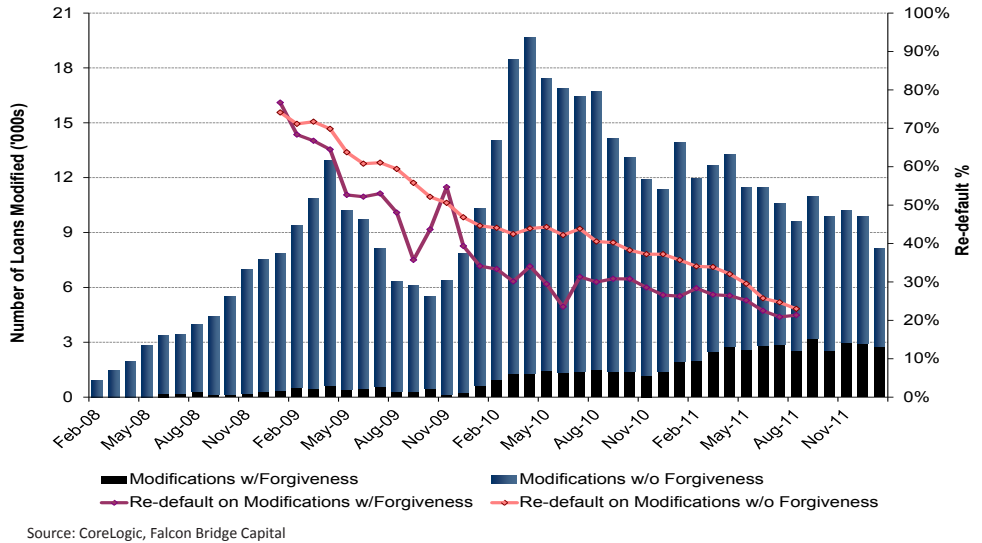


The type of modification is less important than the reduction in monthly mortgage payment. Whether the loan received a principal reduction was not as important as the amount of reduction in monthly payment.

Source: CoreLogic, Falcon Bridge Capital

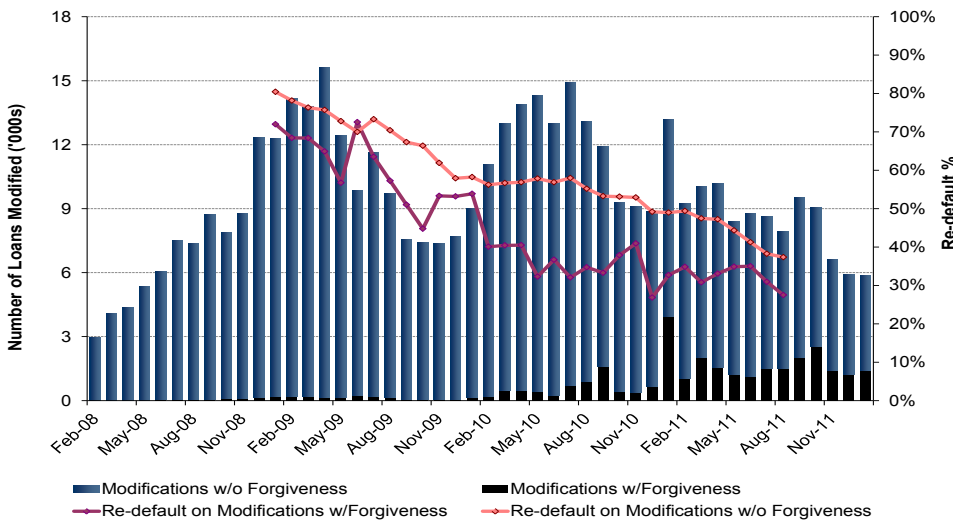
The re-default rate of loans that received a payment reduction of at least 25% have been on average 13 points lower than loans that received a payment reduction of <25%.

All Modifications w/Payment Decrease >25%



Source: CoreLogic, Falcon Bridge Capital

All Modifications w/Payment Decrease 0-25%



Source: CoreLogic, Falcon Bridge Capital

Disclosures

The underlying loan data is provided by CoreLogic (subscription-based data repository) for a specific subset of loans. Our access to CoreLogic data includes approximately 95% of all U.S. Option ARM, Subprime, and Alt-A securitized product. Unless specified, Prime, Jumbo, or Agency Backed loans are not included in the graphs and charts.

Algorithms and analysis to access the information and any interpretation are proprietary to Falcon Bridge Capital, LLC.

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