

Focus on Residential Mortgage Backed Securities



Impact of Institutional Investors on Loss Severities

April 11, 2013

In this issue

In 2012 the activity for “Buy-to-Rent” programs initiated by large Institutional Investors has helped stabilize local housing markets. For the most part, these investors have focused on areas with large numbers of distressed properties, where home prices had fallen by more than 35% from the 2006 peak (see table below).

In this issue we analyze short-sale liquidations as an indicator of Investor participation at various price points to determine if it has helped lower loss severities for loans liquidated out of Non-Agency RMBS deals.

Large Institutional Investors have primarily targeted \$100k to \$250k median home prices, which equate to Non-Agency current loan balances of less than or equal to \$400k. As Institutional Investor participation increased, one would have expected the liquidation timelines to shorten and for realized severities to be lower due to higher prices paid for properties.

Recent liquidation data does not support this trend across all product types and price-points in all CBSAs. Some CBSAs are benefiting more than others requiring continued zip code level analysis & projections on prospective loss severities.

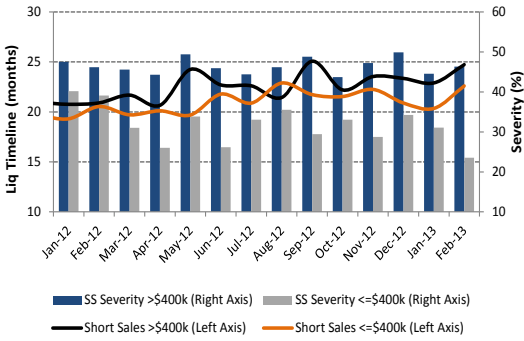
Home Price Trends

Area	Home Price Index - Since 2005						
	Current	Peak			Trough		
	Index	Date	Index	HPD from peak	Date	Index	HPA from trough
National	147.54	4/1/2006	200.11	-26.3%	2/1/2012	133.85	10.2%
Los Angeles-Long Beach-Glendale, CA	195.60	9/1/2006	282.95	-30.9%	2/1/2012	170.87	14.5%
Riverside-San Bernardino-Ontario, CA	157.36	8/1/2006	294.86	-46.6%	5/1/2009	136.95	14.9%
New York-White Plains-Wayne, NY-NJ	199.21	11/1/2006	220.39	-9.6%	12/1/2011	180.03	10.7%
Santa Ana-Anaheim-Irvine, CA	189.70	4/1/2006	263.71	-28.1%	2/1/2012	165.36	14.7%
San Diego-Carlsbad-San Marcos, CA	172.20	8/1/2005	249.52	-31.0%	1/1/2012	153.10	12.5%
Washington-Arlington-Alexandria, DC-VA-MD-WV	201.13	5/1/2006	261.12	-23.0%	2/1/2009	172.67	16.5%
Oakland-Fremont-Hayward, CA	149.00	10/1/2005	234.40	-36.4%	2/1/2012	128.34	16.1%
Chicago-Joliet-Naperville, IL	104.62	11/1/2006	165.61	-36.8%	3/1/2012	103.97	0.6%
Phoenix-Mesa-Glendale, AZ	137.08	6/1/2006	226.13	-39.4%	2/1/2011	105.71	29.7%
Atlanta-Sandy Springs-Marietta, GA	103.81	12/1/2006	140.37	-26.0%	2/1/2012	92.34	12.4%
Las Vegas-Paradise, NV	107.98	3/1/2006	227.15	-52.5%	12/1/2011	90.76	19.0%
Miami-Miami Beach-Kendall, FL	176.38	11/1/2006	305.07	-42.2%	3/1/2011	143.08	23.3%

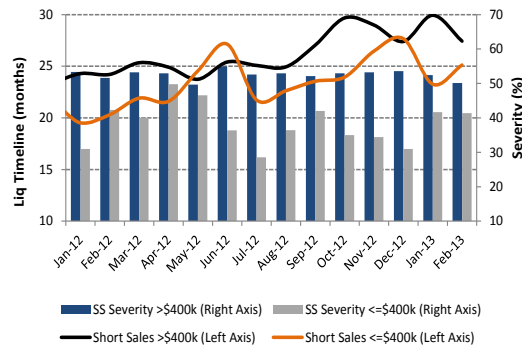
Source: CoreLogic, 1010data, Falcon Bridge Capital

Los Angeles-Long Beach-Glendale, CA

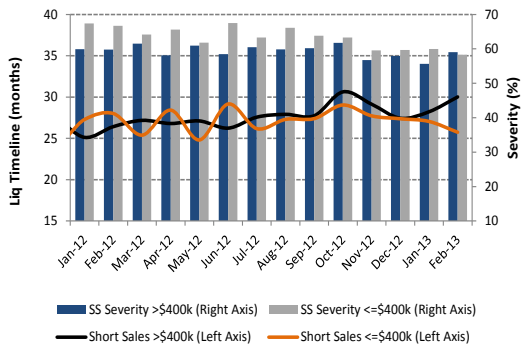
Alt-A



Option Arm



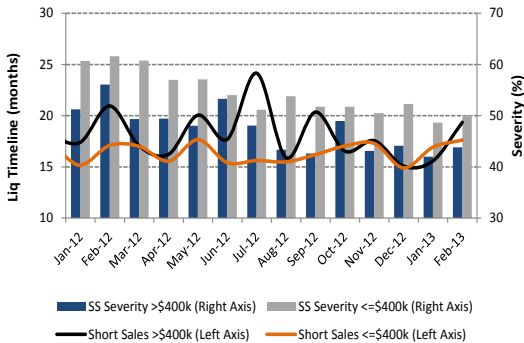
Subprime



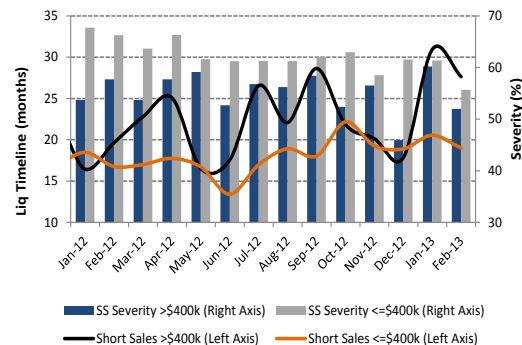
In the Los Angeles-Long Beach-Glendale, CA CBSA, the short sale liquidation timelines for properties less than or equal to \$400k current balance are roughly the same as those timelines observed for current balances greater than \$400k. However, loss severities observed for loans liquidated with smaller balances have performed better in Alt-A and Option Arm products at those price points. Subprime severities continue to be comparable to their higher loan balance counter-parts indicating other factors continue to weigh on loss severities.

Phoenix-Mesa-Glendale, AZ

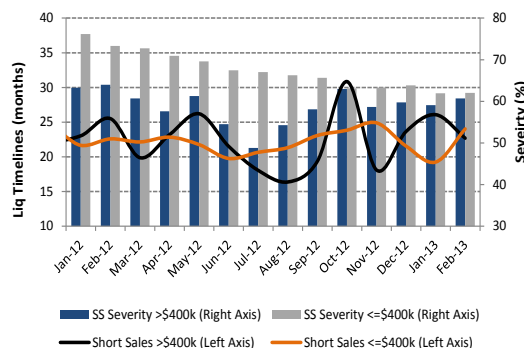
Alt-A



Option Arm



Subprime

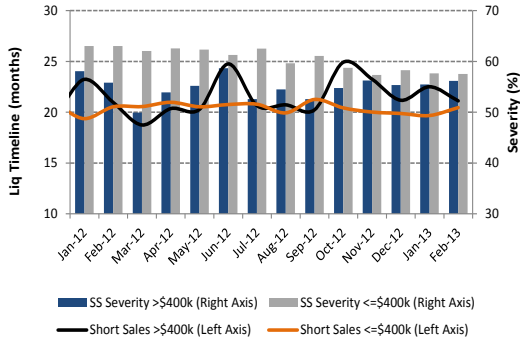


In the Phoenix-Mesa-Glendale, AZ CBSA, another area where there has been large Buy-to-Rent activity, there is no significant difference in liquidation timelines except for Option Arm loans.

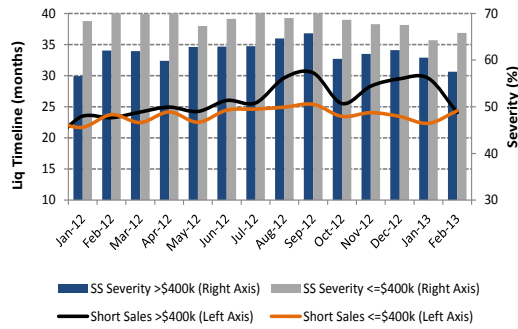
A slight improvement in severities is observed in this CBSA. Despite a well documented run-up in prices in the Phoenix area of approximately 20%, the loss severities on lower balance loans were actually higher than their higher loan balance counter-parts and the overall trend in severities is only marginally better over the past year.

Riverside-San Bernardino-Ontario, CA

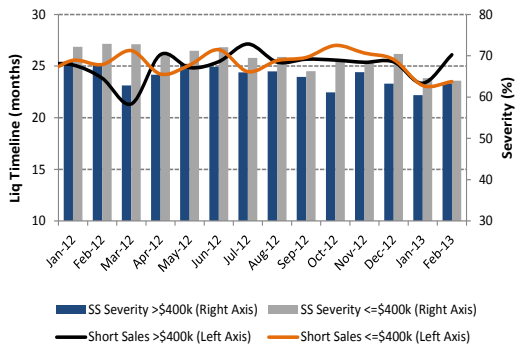
Alt-A



Option Arm



Subprime

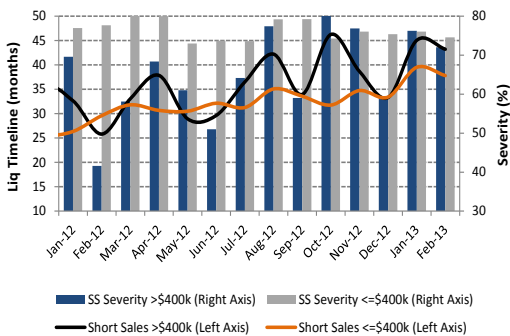


In the Riverside-San Bernardino-Ontario, CA CBSA, the liquidation timelines for small balance loans have been shorter than large balance loans in Alt-A and Option Arm products. The trend in Subprime loans is not clear.

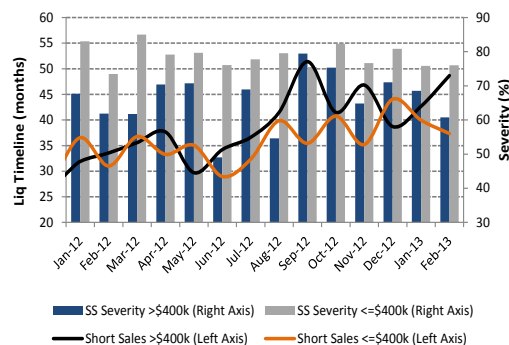
Realized loss severities between small and large balance loans in Alt-A product have performed similarly. However, the same cannot be said for Option Arm and Subprime products, which continue to observe higher realized loss severities for small balance loans.

Miami-Miami Beach-Kendall, FL

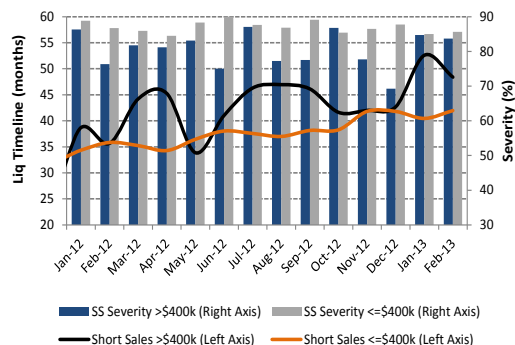
Alt-A



Option Arm



Subprime

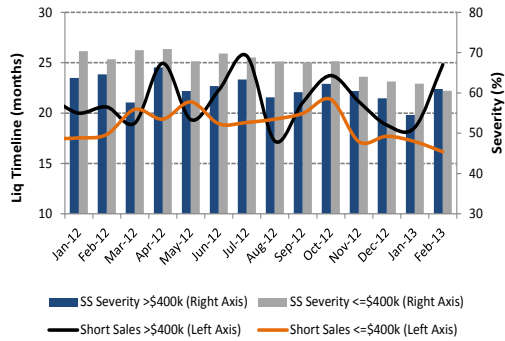


The Miami-Miami Beach-Kendall, FL CBSA is one of the few Judicial states to have seen increased investor participation.

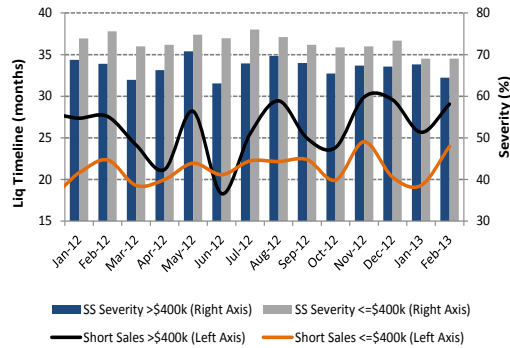
Although liquidation timelines appear to be shorter for lower balance loans, other factors have negated any positives from increased investor activity and resulted in no improvement in realized severities.

Las Vegas-Paradise, NV

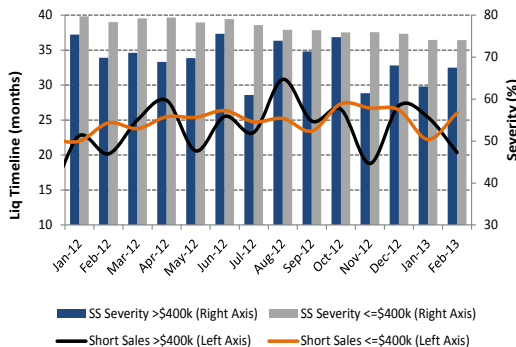
Alt-A



Option Arm



Subprime



Source: CoreLogic, 1010data, Falcon Bridge Capital

In the Las Vegas-Paradise, NV CBSA, the difference in short sale liquidation timelines on lower balance loans was only evident in Option Arm loans. Alt-A and Subprime loans did not show a clear difference in timelines.

However, the realized severities continue to show higher severities on lower balance loans for all product types.

Conclusion

The impact of Institutional Investors on loss severities is inconclusive. Investors have helped stabilize the local housing market by taking some of the distressed properties out of the pipeline. This may have provided a floor to home prices in these areas and generated confidence in housing. However, for Non-Agency investors, the current positive environment and sentiment has not manifested in lower severities.

We believe realized severities will remain at the current levels given that 1) liquidation timelines will continue to increase due to change in Servicer practices (i.e. no dual foreclosure tracking) and changes in state foreclosure laws (i.e. Nevada and California), 2) increased costs to liquidate loans (i.e. legal fees, force-placed insurance, etc), and 3) lower prospective home price appreciation due to weaker Institutional Investor demand.

For lower balance loans, like the majority of Subprime loans, the increased Investor activity in lower current price points has not contributed to a significant improvement in severities.

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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