



MBA's NATIONAL SECONDARY MARKET  
CONFERENCE & EXPO 2010  
MAY 23-26, 2010, NYC

**Bringing Back the Jumbo Market**

Moderated by

Tom Millon, CFA, CMB

CEO & President, Capital Markets Cooperative, LLC

[tmillon@capmks.org](mailto:tmillon@capmks.org)

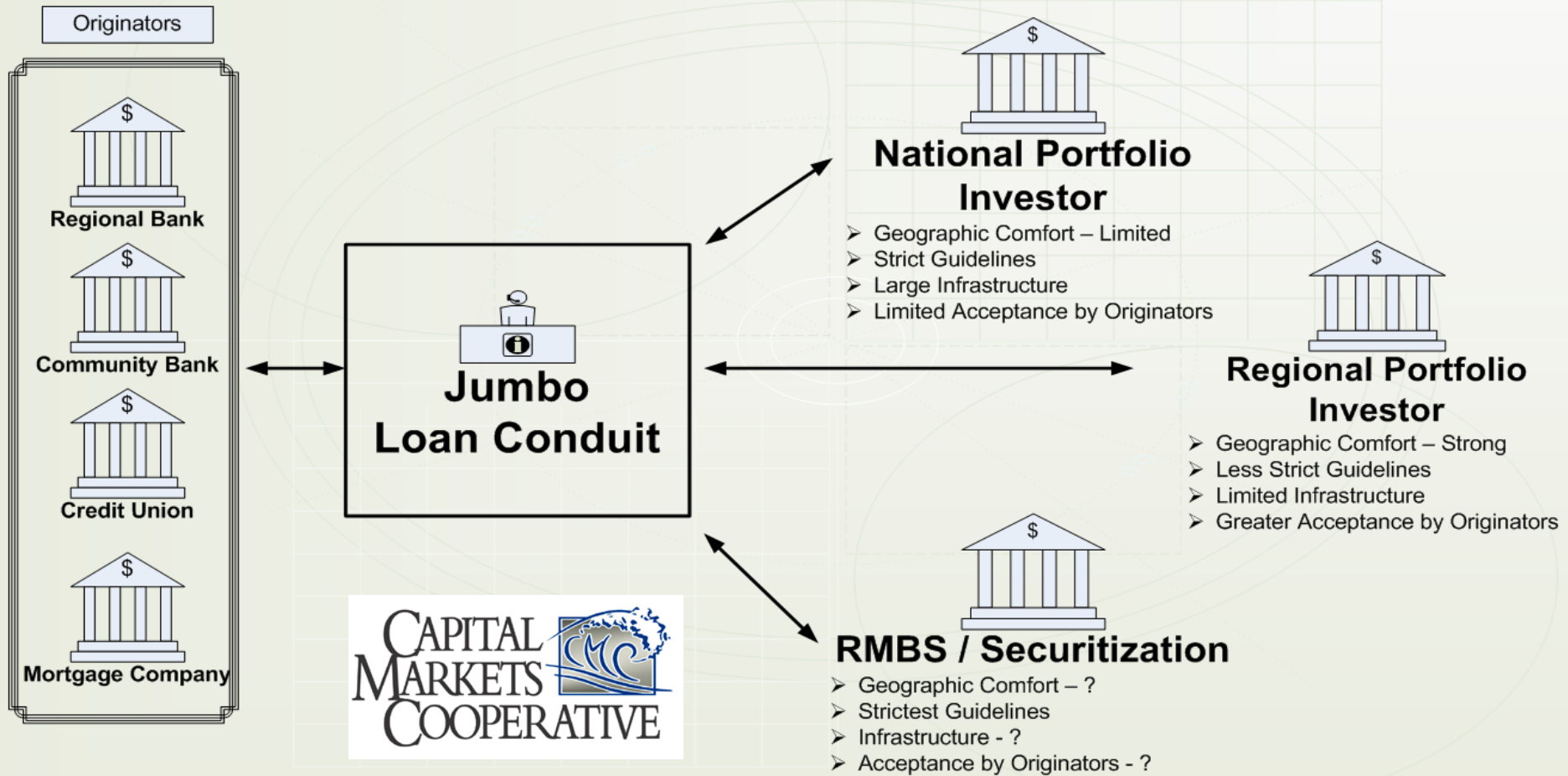


- **Introduction**
- **Originator Perspectives**
  - » Current Jumbo Investors, Products, and Pricing
  - » Originator Comments
- **Underwriting and Valuation Challenges**
  - » Review of recent Redwood Trust deal
  - » Appraisal Issues
- **Bank Portfolio Perspectives**
  - » IRR, Capital, and Other Key Investment Considerations
- **RMBS and Securitization Outlook**
  - » Market Dynamics and Proposals
  - » Fixed Rate Securitization Economics
- **Conclusions and Q&A**

# Jumbo Market Flows



## Jumbo Loan Origination Market





		2008	2009	Change
Agency Jumbo	Fannie	\$ 19.65	\$ 46.95	139%
	Freddie	\$ 5.50	\$ 28.71	422%
	FHA	\$ 10.34	\$ 22.94	122%
	<b>Agency Total</b>	<b>\$ 35.49</b>	<b>\$ 98.60</b>	<b>178%</b>
<b>Non-Agency Jumbo</b>		<b>\$ 98.00</b>	<b>\$ 92.00</b>	<b>-6%</b>
<b>Total Jumbo</b>		<b>\$ 133.49</b>	<b>\$ 190.60</b>	<b>43%</b>
		** \$billions	** \$billions	

Source: Inside Mortgage Finance and public disclosures



	1Q 2009	1Q 2008	1Q 2007
Bank of America/Countrywide	\$ 8,987	\$ 2,783	\$ 23,755
CitiMortgage	\$ 2,868	\$ 11,100	\$ 6,040
Suntrust	\$ 2,650	\$ 1,169	\$ 4,182
Wells Fargo/Wachovia	\$ 1,977	\$ 5,064	\$ 19,341
Union Bank of CA	\$ 752	\$ 581	\$ 235
Chase	\$ 672	\$ 5,900	\$ 7,500
Flagstar	\$ 664	\$ 43	na
Astoria Federal	\$ 394	\$ 609	na
Navy FCU	\$ 366	\$ 353	na
HSBC	\$ 250	\$ 356	na
	<b>\$ 19,580</b>	<b>\$ 27,958</b>	<b>\$ 61,053</b>

\*\* millions

Source: Inside Mortgage Finance



**Min FICO: 700; Max LTV: 80%; Full Doc (Two years' income with assets); Bullet-proof appraisal**

- 5/1 Portfolio ARM: 3.875% (ING) - 4.875%
- Chase, GMAC, and US Bank are price leaders. Other portfolio lenders are aggressively priced, but guidelines are very strict.
- 30-year Fixed: 5.625% (Citi) - 6.500%
- Citi recently announced a low-fixed-rate product (to the dismay of hopeful securitizers)
- Other conduits in the market at higher rates are getting NO volume



- Just signed up with XYZ for jumbo, not optimistic it will be easy
- Try to fit as much jumbo production into conforming jumbo program
- No conforming jumbo in TX, so strong demand for private solutions
- Feel like originators are throwing jumbo loans against the wall to see if they stick, no consistency, investors are still trying to figure what they want and do not want
- Pull through 50-60%, fallout is high - primarily appraisal, comp, market adjustment issues
- Demand is high but originators are wary because there is no comfort that loans will go smoothly, they don't want to look bad to their high net worth clients.
- Having good success with low LTV's, high score borrowers (typically self-employed), with good assets, anything else is a struggle
- Investors' underwriters are afraid to make a decision, poorly trained to analyze complex self employed tax returns, qualified loans get declined
- Volume way off, likely cause is onerous underwriting standards
- Largest reason for declines are appraisal values
- Very subjective appraisal standards, not good knowledge of the markets outside of immediate bank geography



MBA's NATIONAL SECONDARY MARKET  
CONFERENCE & EXPO 2010  
MAY 23-26, 2010, NYC

**Attracting Investors back into the Jumbo market....**

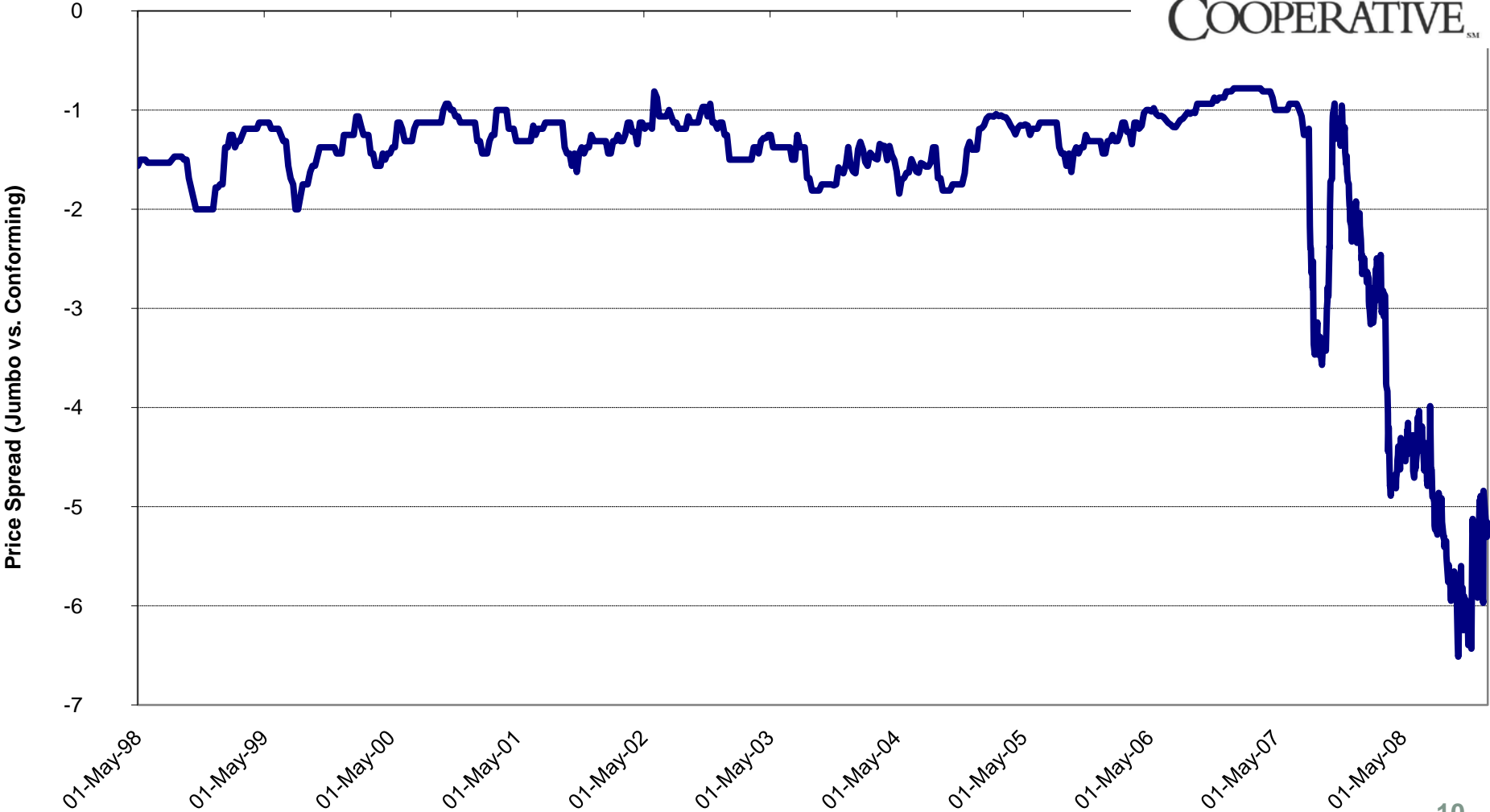
Griff Straw, CMB  
President, SOLIDIFI US, Inc  
[gstraw@solidifi.com](mailto:gstraw@solidifi.com)  
703-496-7579



- Who knew.....
- Liquidity had an on/off switch (see graph)
- What lay ahead for FNMA/FRE
- Where Wall Street was heading
- What we would all be facing.....



30yr Core Jumbo Price Spread History





- Need to be conservative
- Meet current and future regulatory scrutiny
- Need for documented QUALITY in all aspects of loan files, especially the appraisal

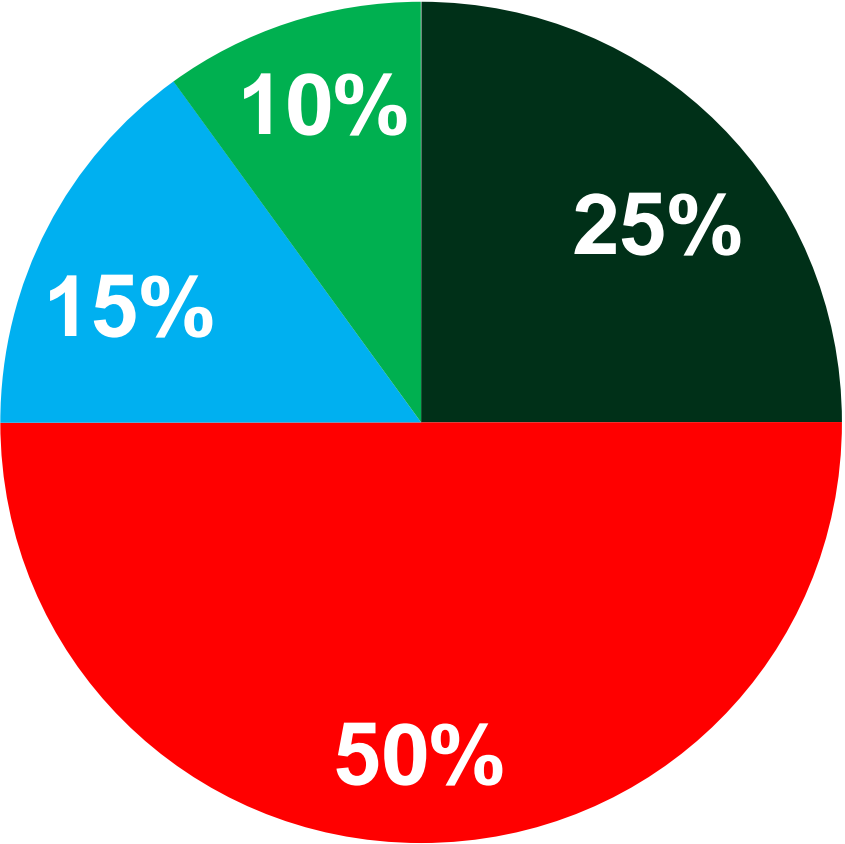


- **Redwood Trust -- Sequoia Mortgage Trust 2010-H1**
  - » All Citi jumbo collateral, nearly “perfect” loans with transparent underwriting
  - » Weighted Ave FICO 768, lowest 702
  - » Weighted Average 57% LTV; Max LTV = 80%
  - » \$238 million/ 255 loans (110 loans from CA, 56 from NYC metro area)
  - » Average loan balance approximately \$933,000.
  - » 80% refi, 20% purchase. 84% retail originated.
  - » Redwood keeping risky piece and 5%.
  - » 5 Year ARM's, 4.80% average note rate
  - » Class A1 priced at par with a 3.75% coupon, approx. 3 year wtd avg life
  - » The deal was executed at a loss, but was much less than anticipated due to the fact that it was 6x oversubscribed (evidencing strong investor demand).

# Fallout of Super-Prime Jumbo Loans



Reasons jumbo loans fall out of pipelines:



- Interest Rate Move
- Property Value
- Income/Assets
- Credit Score

Source: Capital Markets Cooperative  
Jumbo Investor Survey



- Mortgage is a “collateralized” loan
- Real Estate Appraisal validates the collateral for the lender to base their credit granting decision on...
- Description of individual property characteristics and risks
- Opinion of value”



- Investors mistrust rating agencies
- Investors mistrust Investment bankers
- Investors are scrutinizing the characteristics of the MBS
- The Appraisal represents the “I was there” first hand knowledge (report) of the collateral *FOR* the lender and investor!!!
- Appraisers must understand their responsibility and role!



- Getting the right appraiser to do the job, not the cheapest....
- Going forward, Investors, Lenders and Regulators alike will scrutinize appraisers.
- Appraiser Independence is here to stay



- Many types of products and coverage's.....
- READ the contracts, make sure you understand what coverage you have and when it pays
- Who is behind it, insured or self insured...?



MBA's NATIONAL SECONDARY MARKET  
CONFERENCE & EXPO 2010  
MAY 23-26, 2010, NYC

**Bringing Back the Jumbo Market**

Bank Portfolio Perspectives

Pete Taglia, CPA, CMB

Vice President, FTN Financial, Capital Assets Corporation

[Pete.Taglia@FTNFinancial.com](mailto:Pete.Taglia@FTNFinancial.com)

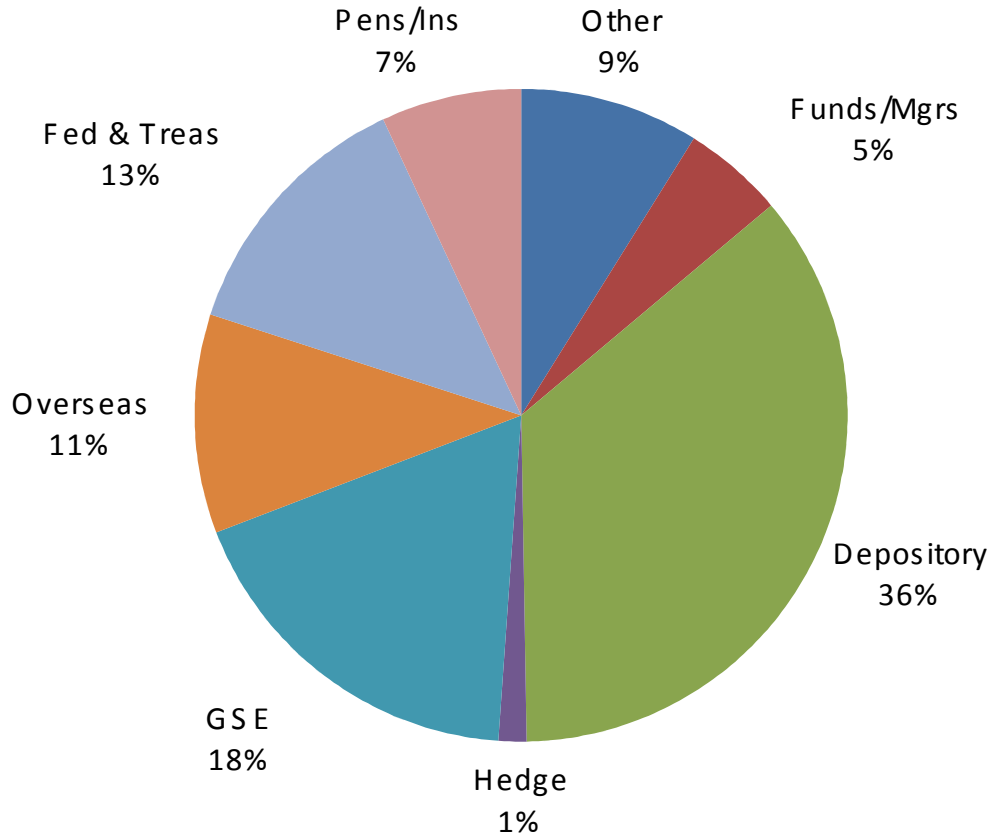
Pete Taglia, CPA, CMB



- Considerations
  - » Banks own a lot of mortgage assets
  - » Liquidity and capital issues due to participation in multiple aspects of sub-prime lending and securitization
  - » Rising Interest Rate Risk / Regulatory Concerns
- Pros
  - » Higher Yield (vs. alternative structures)
  - » Customer Relationship
  - » Competition (lack thereof)
- Cons
  - » Liquidity
  - » Risk Exposure
  - » Concentration



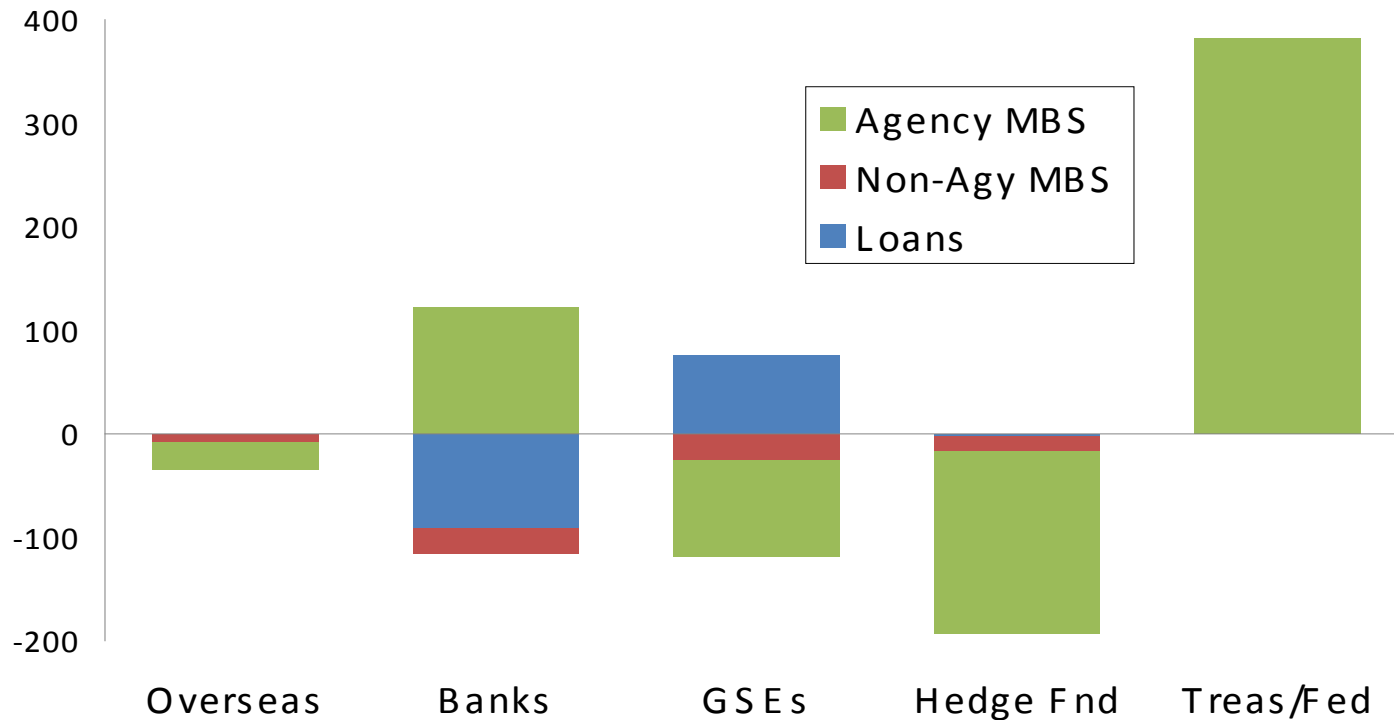
## Share of Single Family Mortgage Funding as of March, 2010 (\$9.7 Trillion)



Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. Opinions, historical price(s) or value(s) are as of the date and, if applicable, time, indicated.

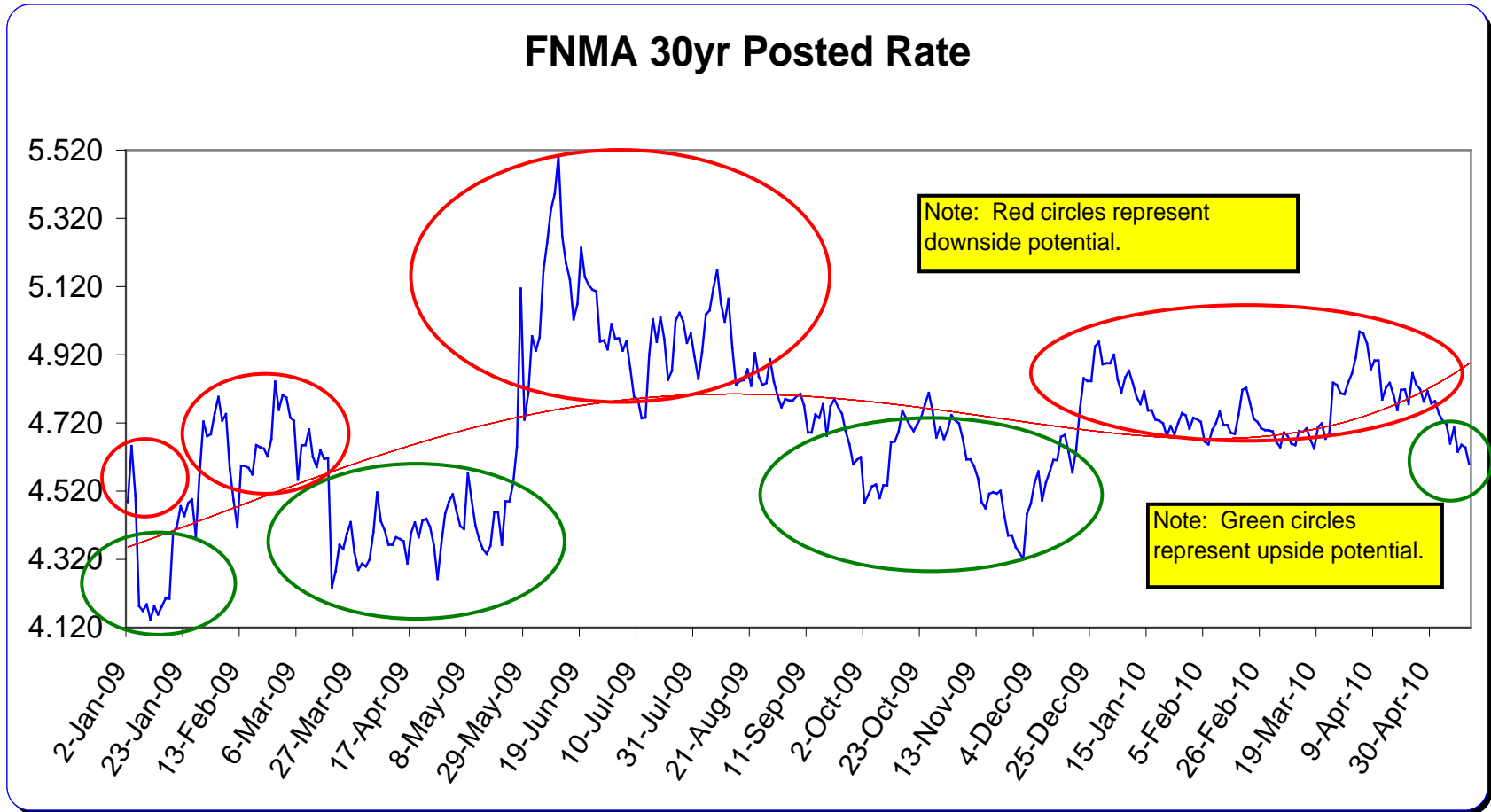


## Acquisition of Mortgage Assets September 30, 2009 to March 31, 2010





- Considerations
  - » Banks own a lot of mortgage assets
  - » Liquidity and capital issues due to participation in multiple aspects of sub-prime lending and securitization
  - » Rising Interest Rate Risk / Regulatory Concerns
  
- Pros
  - » Higher Yield (vs. alternative structures)
  - » Customer Relationship
  - » Competition (lack thereof)
  
- Cons
  - » Liquidity
  - » Risk Exposure
  - » Concentration





- Low interest rates in recent periods and the impending rise in interest rates have pushed exposure to interest rate risk (IRR) to the forefront of regulatory agency concerns.
- The January 2010 release of the FFIEC *Advisory on Interest Rate Risk Management*:
  - » Intended to raise awareness of the regulatory agencies’ concern
  - » Reiterates importance of effective corporate governance, policies and procedures, risk measuring and monitoring systems, stress testing, and internal controls related to the IRR exposures of depository institutions
  - » Not only focuses on identifying and measuring IRR, but also on taking action to control IRR
- Plans must be in place to deal with the overall effect of rising interest rates on the balance sheet.

***“the prospects for significant inflation have increased. Not only here, but around the world.... If you wanted to bet on higher inflation or lower inflation, you’d want to vote on higher. Maybe a lot higher.”***



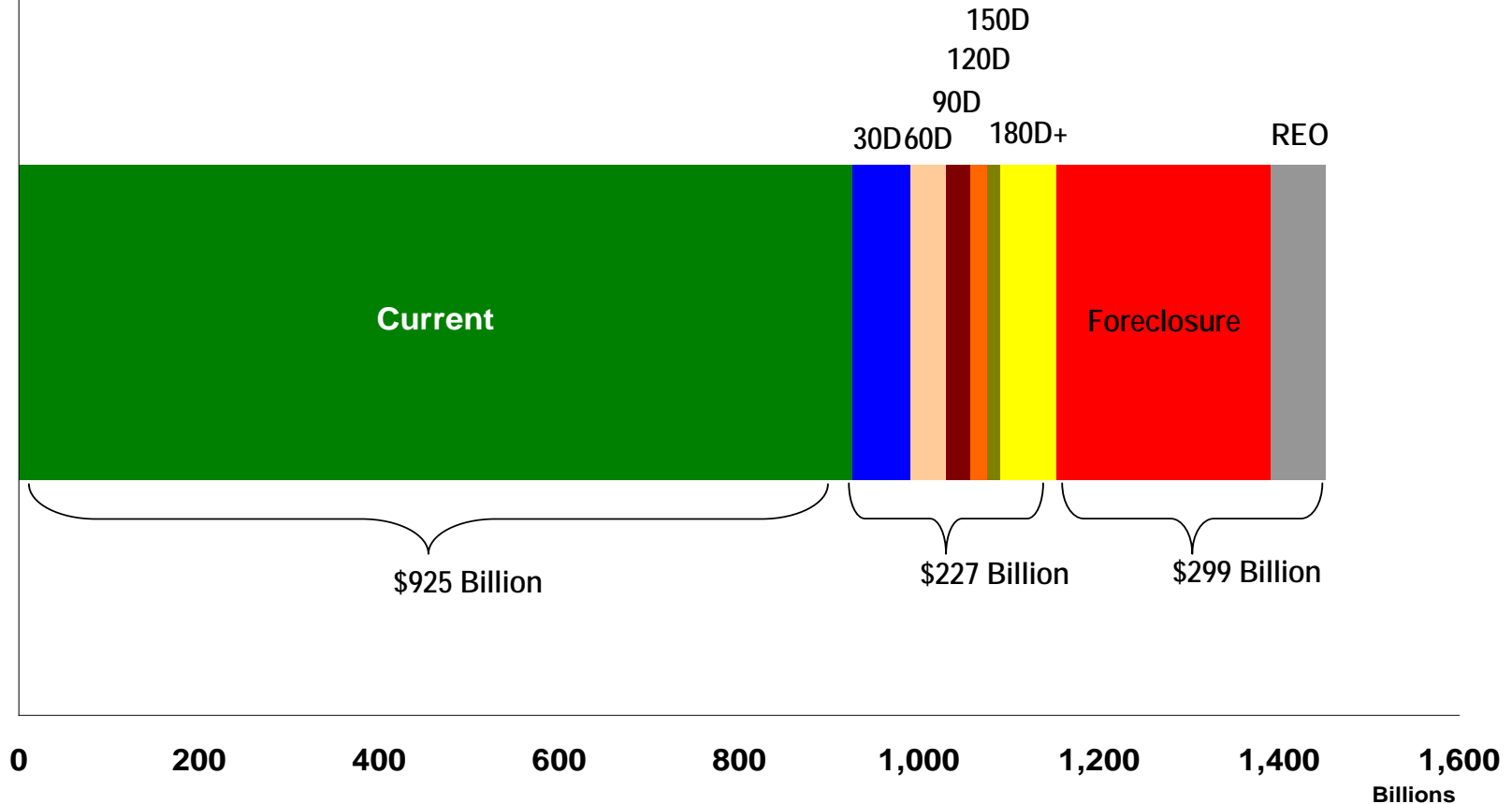
Excerpt from the March 17, 2010 press release in connection with the Joint Interagency *Policy Statement on Funding and Liquidity Risk Management*:

“Given the recent market turmoil, the agencies are reiterating the importance of effective liquidity risk management for the safety and soundness of financial institutions. This policy statement emphasizes the importance of cash flow projections, **diversified funding sources** (emphasis added), stress testing, **a cushion of liquid assets** (emphasis added), and a formal, well-developed contingency funding plan as primary tools for measuring and managing liquidity risk. The agencies expect each financial institution to manage funding and liquidity risk using processes and systems that are commensurate with the institution's complexity, risk profile, and scope of operations.”



## Delinquency Pipeline: Non-Agency RMBS

Remittance Data as of April 2010



Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. Opinions, historical price(s) or value(s) are as of the date and, if applicable, time, indicated.



- Considerations
  - » Banks own a lot of mortgage assets
  - » Liquidity and capital issues due to participation in multiple aspects of sub-prime lending and securitization
  - » Rising Interest Rate Risk / Regulatory Concerns
- Pros
  - » Higher Yield (vs. alternative structures)
  - » Customer Relationship
  - » Competition (lack thereof)
- Cons
  - » Liquidity
  - » Risk Exposure
  - » Concentration

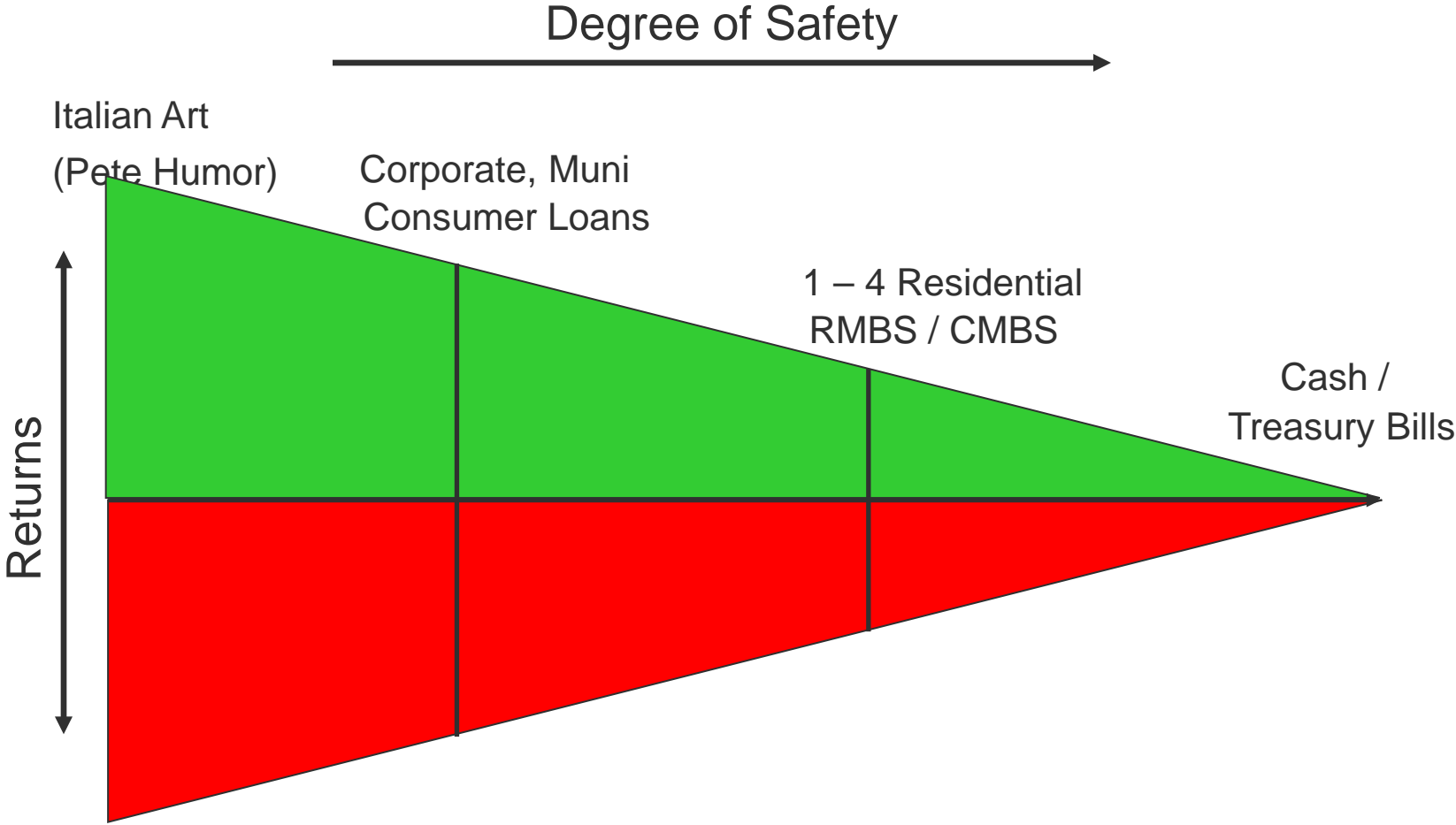


- Loan management focus shifts
  - » Return to vanilla lending
  - » Decline in new originations
  - » Disruptions in the secondary market – puts pressure on liquidity
- Income – Falling Portfolio Yields
  - » Adjustable-rate loan production reaches record lows
  - » Consumer demand primarily for long-term fixed rate
  - » Downward ARM repricing
  - » New low-coupon originations

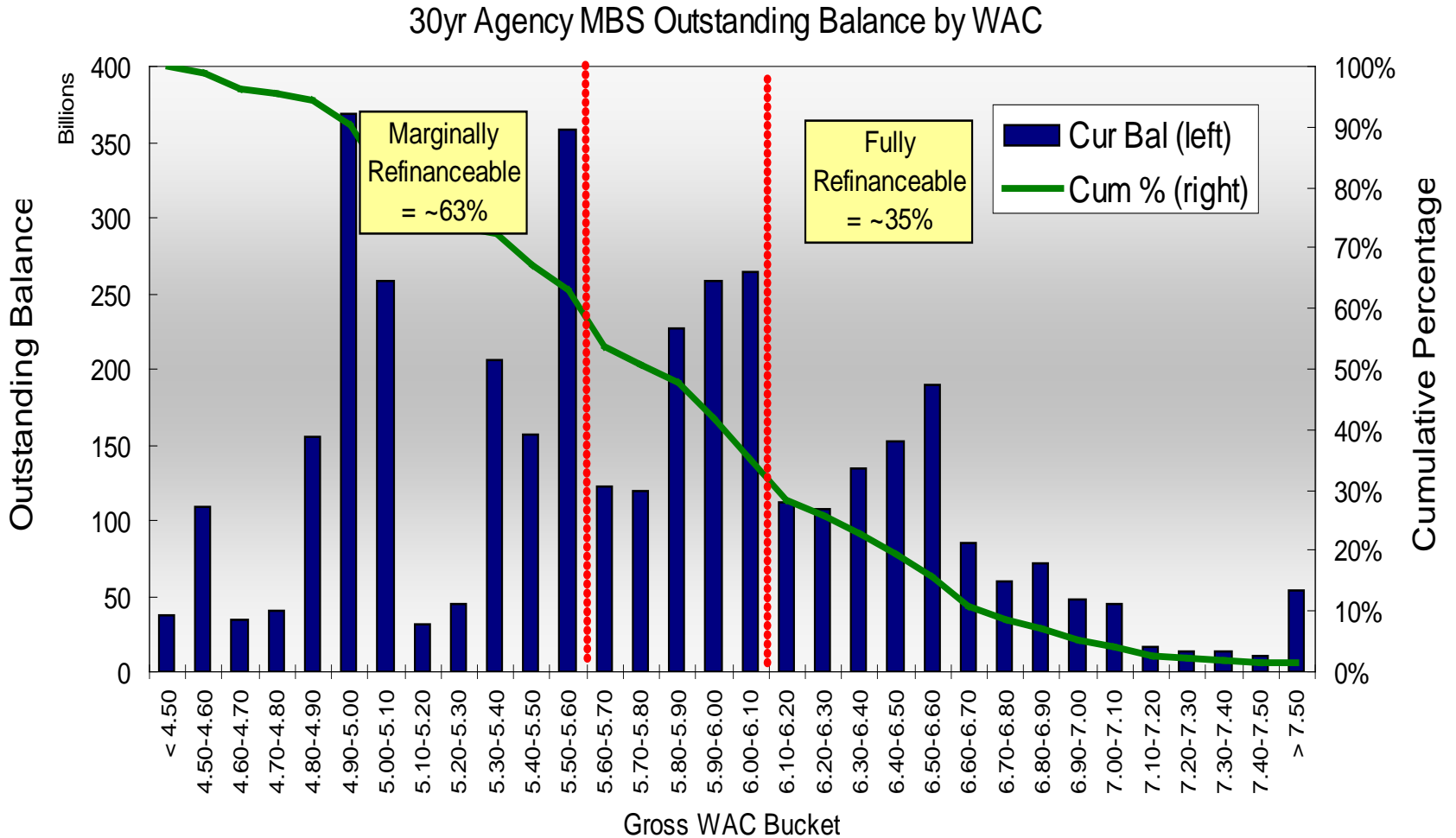


- Anemic earnings
- Property devaluations
- Growth in non-performing assets
  - » Exotic and non-standard loan types
  - » Defaults triggered by ARM roll payment shock
  - » HELOC & Second Liens
  - » CRE
- Escalating credit losses
- Capital erosion
- Limited and expensive sources of outside capital

# Return Variance With Different Investment Strategies



Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. Opinions, historical price(s) or value(s) are as of the date and, if applicable, time, indicated.



Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. Opinions, historical price(s) or value(s) are as of the date and, if applicable, time, indicated.

# Loan Portfolio Tactics in 2010



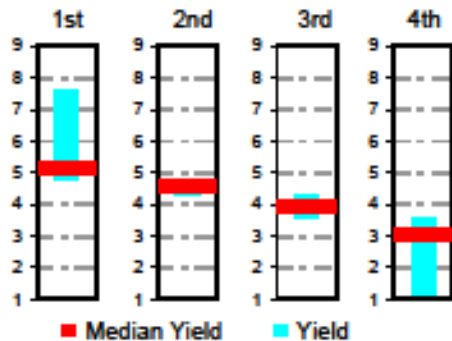
## Bank Quartile Analysis 2 - 10 Billion in Assets

4th Quarter 2009 Portfolio Performance  
U.S. Banks 2 - 10 Billion in Assets (200 Banks)

U.S. Bank Data from Call Reports

### Taxable Equivalent Yield

	1st	2nd	3rd	4th
Med Yld	5.17	4.56	3.97	3.05
High	7.59	4.82	4.28	3.56
Low	4.82	4.28	3.56	1.15



### Bonds with Remain. Maturity

	1st	2nd	3rd	4th
Under 12 Mos	7	6	6	22
1 to 5 Yrs	11	9	14	27
5 to 15 Yrs	19	15	9	8
Over 15 Yrs	9	4	2	2

### MBS with Remaining Maturity

	1st	2nd	3rd	4th
Under 12 Mos	2	3	4	2
1 to 5 Yrs	2	5	6	2
5 to 15 Yrs	12	19	20	7
over 15 Yrs	12	18	15	5

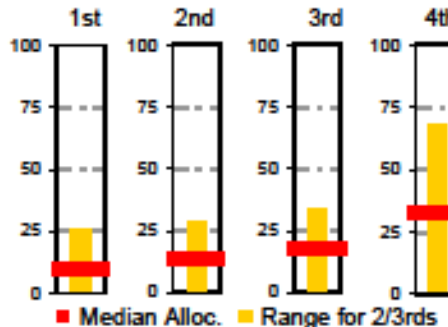
### CMOs with Average Life

	1st	2nd	3rd	4th
Under 3 Yrs	12	14	13	15
Over 3 Yrs	12	9	12	7

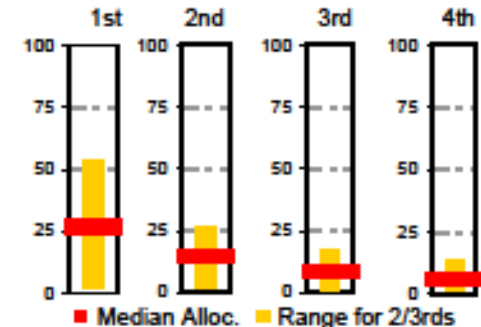
### Sector Allocation

	1st	2nd	3rd	4th
UST	2	0	1	10
Agency	10	14	18	32
Muni	27	15	9	6
MBS	28	43	44	17
CMO	24	22	24	22
ABS	2	0	0	3
Corp	4	2	2	6
Equity	1	1	1	2
Comm MBS	1	2	0	0
Struct Prod	2	1	1	1

### Agency Sector Allocation



### Municipal Sector Allocation



### Ratios

	1st	2nd	3rd	4th
Bond/Asset	17	19	20	17
Loan/Asset	68	66	64	62

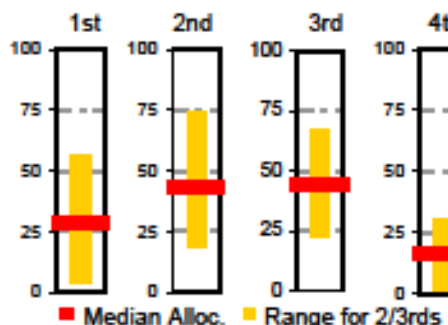
### Unrealized

% G/L	0.7	0.9	0.7	-0.2
-------	-----	-----	-----	------

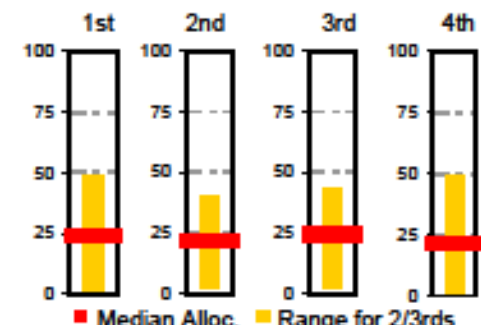
### Memoranda

	1st	2nd	3rd	4th
Stru. Notes	1	2	2	4
Amortizing	52	65	68	38

### MBS Sector Allocation



### CMO Sector Allocation



Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. Opinions, historical price(s) or value(s) are as of the date and, if applicable, time, indicated.



This material was produced by an FTN Financial Strategist and is not considered research and is not a product of any research department. Strategists may provide advice to investors as well as to FTN Financial's trading desk. The trading desk may trade as principal in the products discussed in this material. Strategists may have consulted with the trading desk while preparing this material and the trading desk may have accumulated positions in the securities or related derivatives products that are the subject of this material. Strategists receive compensation which may be based in part on the quality of their analysis, FTN Financial revenues, trading revenues, and competitive factors.

Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. Opinions, historical price(s) or value(s) are as of the date and, if applicable, time, indicated. FTN Financial does not accept any responsibility to update any opinions or other information contained in this communication. FTN Financial is not providing investment advice through this material. This is for information purposes only and is not intended as an offer or solicitation of any product. Securities, financial instruments, products or strategies mentioned in this material may not be suitable for all investors. Before acting on any advice or recommendation in this material, you should consider whether it is suitable for your particular circumstances. Further information on any of the securities or financial instruments mentioned in this material may be obtained upon request.

FTN Financial Group and FTN Financial Capital Markets are divisions of First Tennessee Bank National Association (FTB). FTN Financial Securities Corp (FFSC), FTN Financial Capital Assets Corporation, and FTN Equity Capital Markets Corp. (FTN Equity Capital) are wholly owned subsidiaries of FTB. FFSC and FTN Equity Capital are members of FINRA and SIPC—<http://www.sipc.org/>. Equity research is provided by FTN Equity Capital. FTN Financial Group, through First Tennessee Bank or its affiliates, offers investment products and services.



MBA's NATIONAL SECONDARY MARKET  
CONFERENCE & EXPO 2010  
MAY 23-26, 2010, NYC

**Bringing Back the Jumbo Market**

RMBS and Securitization Perspectives

Michael Buttner

Managing Director, Wells Fargo Securities, LLC

[Michael.Buttner@WellsFargo.com](mailto:Michael.Buttner@WellsFargo.com)

**WELLS  
FARGO**

**SECURITIES**



This document and any other materials accompanying this document (collectively, the “Materials”) are provided for general informational purposes.

By accepting any Materials, the recipient thereof acknowledges and agrees to the matters set forth below in this notice.

Wells Fargo Securities makes no representation or warranty (express or implied) regarding the adequacy, accuracy or completeness of any information in the Materials. Information in the Materials is preliminary and is not intended to be complete, and such information is qualified in its entirety. Any opinions or estimates contained in the Materials represent the judgment of Wells Fargo Securities at this time, and are subject to change without notice. Interested parties are advised to contact Wells Fargo Securities for more information.

The Materials are not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described herein.

The Materials are not intended to provide, and must not be relied on for, accounting, legal, regulatory, tax, business, financial or related advice or investment recommendations. No person providing any Materials is acting as fiduciary or advisor with respect to the Materials. You must consult with your own advisors as to the legal, regulatory, tax, business, financial, investment and other aspects of the Materials.

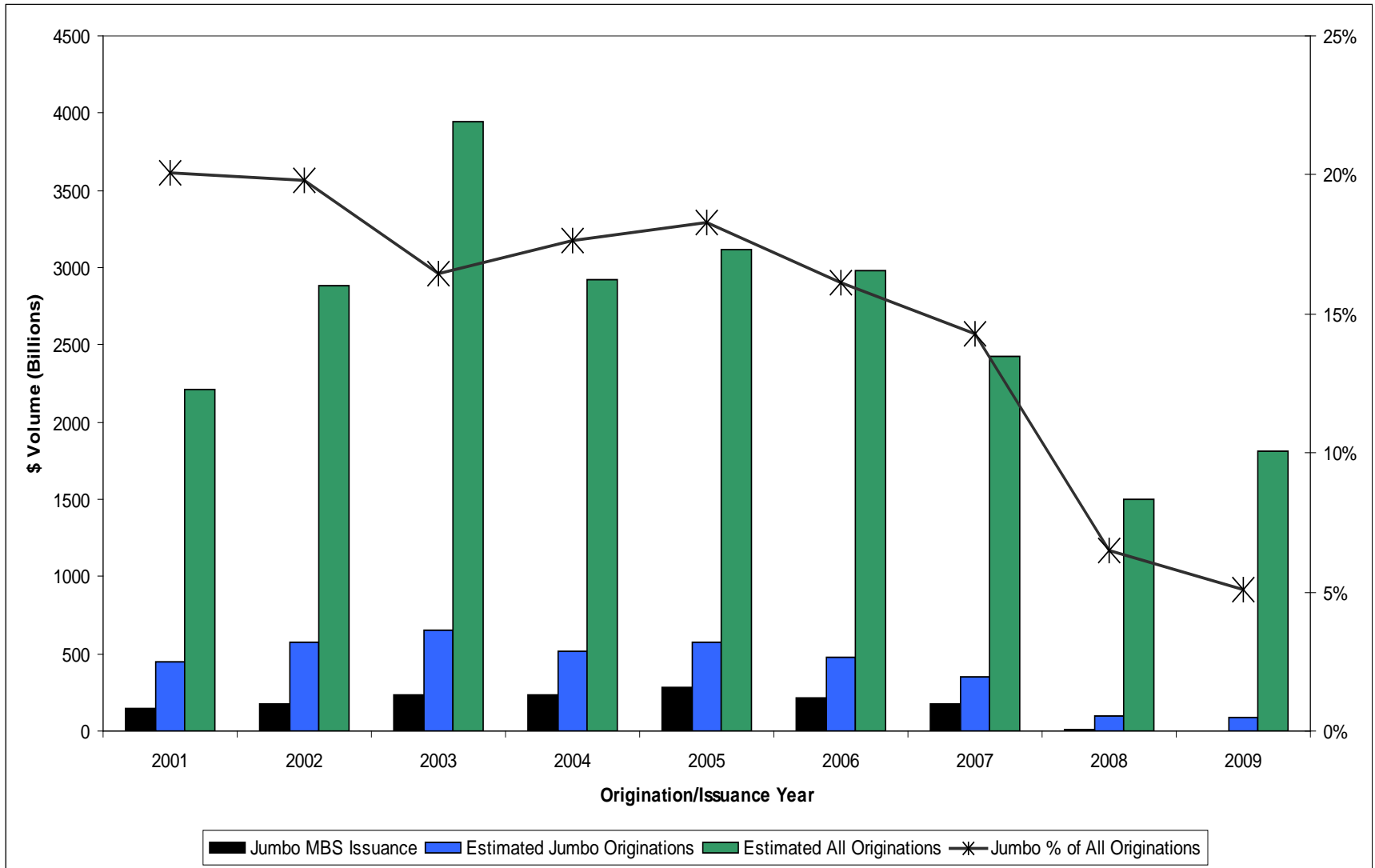
Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC, member FINRA and SIPC, and Wells Fargo Bank, National Association.

Notwithstanding anything to the contrary contained in the Materials, all persons may disclose to any and all persons, without limitations of any kind, the U.S. federal, state or local tax treatment or tax structure of any transaction, any fact that may be relevant to understanding the U.S. federal, state or local tax treatment or tax structure of any transaction, and all materials of any kind (including opinions or other tax analyses) relating to such U.S. federal, state or local tax treatment or tax structure, other than the name of the parties or any other person named herein, or information that would permit identification of the parties or such other persons, and any pricing terms or nonpublic business or financial information that is unrelated to the U.S. federal, state or local tax treatment or tax structure of the transaction to the taxpayer and is not relevant to understanding the U.S. federal, state or local tax treatment or tax structure of the transaction to the taxpayer.

IRS Circular 230 Disclosure:

To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in the Materials is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax penalties or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

# Prime Jumbo MBS Issuance/Prime Jumbo Originations/Total Mortgage Originations





- Virtually nonexistent residential whole loan/private label securitization market for new issue since 2008
- Limited liquidity exists, but appetite for prime non-agency market returning
  - » Bank portfolio's need for quality assets
  - » Significant investor demand exists for AAA through subordinate tranches
  - » First prime jumbo securitization with recently-originated collateral to market April 2010 (SEMT 2010-H1 ~ \$237MM)
- New industry standards promote high quality collateral
  - » Product is originated and underwritten to strict guidelines (low LTV, high FICO, full documentation)
  - » Use of third party due diligence firms to confirm regulatory compliance and sound credit decisions
  - » Rating Agency required originator and servicer reviews to address operational strength of institutions supplying collateral and performing servicing functions
  - » Robust contractual representations and warranties with effective enforcement mechanisms
  - » Significant Originator focus on loan quality origination practices (fraud tools, valuation checks, income validation, etc.)



Proposed legislative and regulatory changes forthcoming for securitized transactions:

- SEC Rule 17g-5
- FDIC Securitization Safe Harbor
- SEC proposed changes to Regulation AB
- Financial Regulatory Reform ( House Bill HR 4173 and Senate Bill S.3217)

The FDIC and the SEC proposed changes are still in the comment period. In addition, the House and Senate Bills have not yet been passed.

The interpretations of these proposed legislative and regulatory changes outlined herein are the interpretations of the speaker and are not the interpretation of Wells Fargo Bank, NA or its affiliates.



**Risk Retention: Each of the proposals set forth a requirement for some level of risk retention and when this risk retention would apply:**

- The FDIC and the SEC each proposes that the Sponsor (or affiliate) have “skin in the game”
  - » 5% retention in the form of a vertical slice of all bonds, with no exceptions permitted (both SEC and FDIC)
  - » 5% (of proceeds) in an established reserve account for 1<sup>st</sup> year to cover repurchase obligations (FDIC)
  - » Retained risk may not be hedged or sold in either proposal
- The current Administration proposes a “skin in the game” concept of up to 5% of the economic risk sold or transferred
  - » Baseline retained percentage of 5%, which may be adjusted (up or down) at the discretion of the regulatory agencies, and regulators could allocate retention between issuer and originator as appropriate
  - » In both Bills, retained risk may not be hedged or sold
  - » Senate amendment adopted by floor vote on May 12 would exempt “qualified residential mortgages” from risk retention requirements
    - Exemption based upon a list of loan underwriting and product features to be defined further by the regulators
    - Exemption available for an RMBS deal only if issuer certifies to the SEC that it has evaluated the effectiveness of its internal controls to ensure that each pooled loan satisfies the exemption parameters

**Accounting Implications:**

- FAS 166 and 167 rules effective as of November 2009 could impact sale accounting treatment for securitized transactions
- Potential for balance sheet consolidation could inhibit market growth, particularly since accountants might conclude that a federally-mandated 5% risk retention level for issuers with the same entity or an affiliate also acting as primary servicer could result in the consolidation of ALL assets and liabilities from the securitization



**Increased transparency for investor community: *The regulatory agencies both propose significant reporting and disclosure requirements regarding underlying collateral for life of security***

- Extensive loan level data information primarily based upon ASF Project RESTART data fields
- Standardized downloadable pool asset file and cash flow waterfall computer program
- Information on loans subject to underwriting exceptions
- Disclosure of originator financial condition and representations and warranties provided by originator
- Ongoing repurchase performance and related representation and warranty breach history for deal participants

**New registration/offering process:**

- Rather than current reliance on investment grade rating to qualify for shelf registration, new shelf eligibility requirements must be satisfied:
  - » 5% risk retention
  - » Depositor CEO certification that assets will support the proposed deal cash flows
  - » Third party opinion that unsatisfied repurchase demands are not a result of contract breach
  - » Elimination of ability to delist securities from ongoing performance reporting to the SEC
- New Form SF3 will require issuer to file a single “integrated” prospectus
- Private deals (Rule 144A or Reg D) would require substantially the same level of disclosure as public deals under form SF1
- Required preparation and filing of preliminary prospectus 5 days prior to first sale

# 30 Year Fixed Rate Jumbo Securitization Economics



## Sample representative deal structure, terms and associated economics:

- » Deal Size: \$400,000,000
- » Rate at Origination: 5.75% Gross; 5.50% Net
- » LTV: 70% (maximum 80%)
- » FICO: 770 (minimum 720)
- » Full Documentation: 100%
- » Subordination: 8%
- » Deal Costs: \$500,000
- » No value given to servicing fee
- » Subordinate yield assumed at 9.00% (loss adjusted)

	AAA Credit Enhancement		
Yields	8%	7%	6%
<b>5.00 %</b>	99.18	99.41	99.63
<b>4.75 %</b>	100.22	100.46	100.70
<b>4.50 %</b>	101.27	101.53	101.79

5 year treasury yield = 2.26%

10 year treasury yield = 3.54%



MBA's NATIONAL SECONDARY MARKET  
CONFERENCE & EXPO 2010  
MAY 23-26, 2010, NYC

**Bringing Back the Jumbo Market**

Questions and Conclusions