

SMITH BREEDEN
ASSOCIATES

SB

Residential and Commercial Mortgage Markets

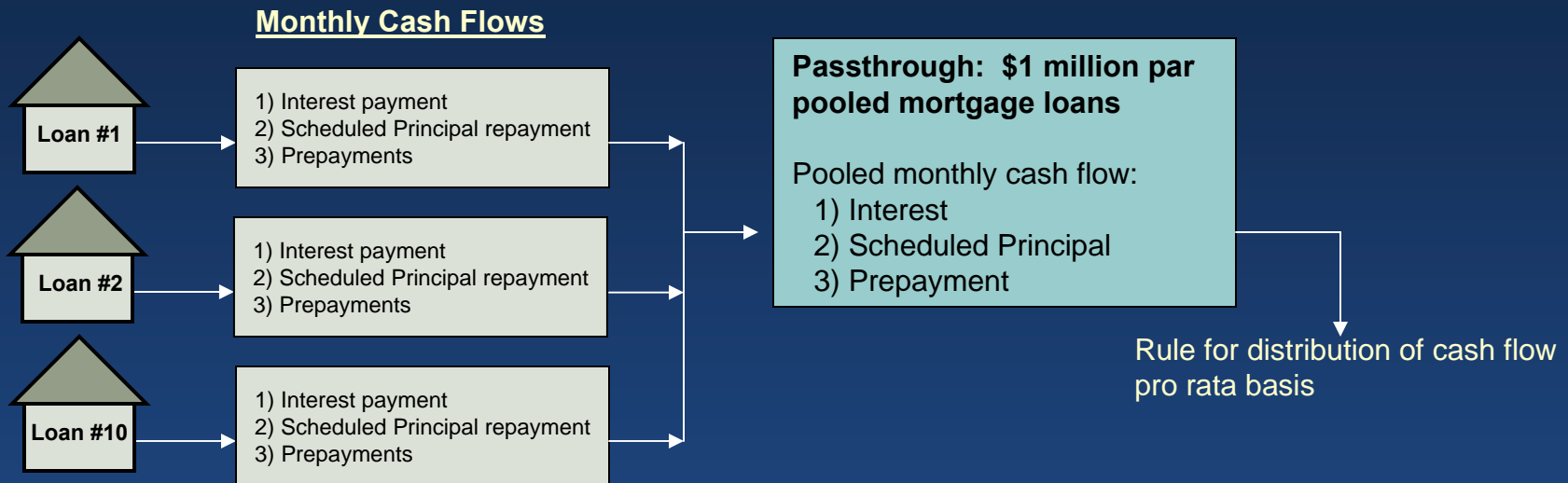
Daniel R. Adler

Principal, Senior Portfolio Manager

November 23, 2009

U.S. Residential Mortgage Market

Creation of a MBS Passthrough Security



Each loan is for \$100,000
Ten total loans: \$1 million

Source: Smith Breeden Analytics.

Note: All information is provided for informational purposes only and should not be deemed as a recommendation to buy or sell securities.

Cashflows

Treasury Cashflows Fixed

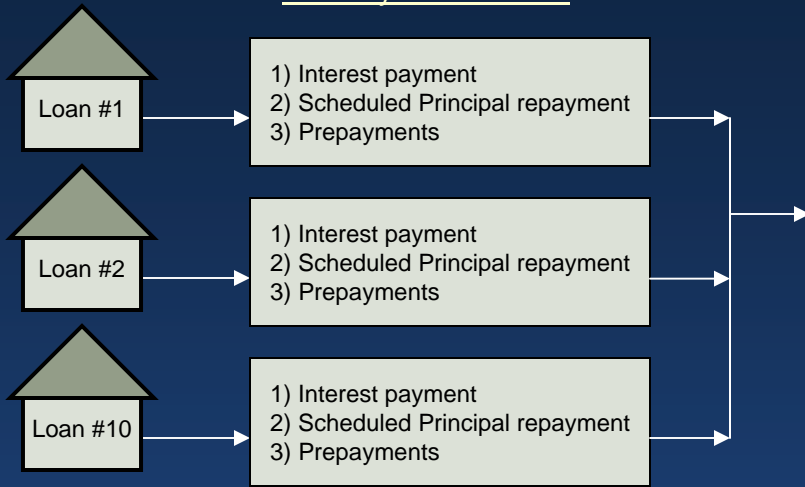
Period (months)	6	12	18	24	...	60
Cashflow	Coupon	Coupon	Coupon	Coupon	...	100 +Coupon

Mortgage Cashflows a Function of Prepayments

Period (months)	1	2	3	4	...	360
Cashflow	Principal ₁ +Interest ₁	Principal ₂ +Interest ₂	Principal ₃ +Interest ₃	Principal ₄ +Interest ₄	...	Principal ₃₆₀ +Interest ₃₆₀

Creation of a Collateralized Mortgage Obligation (CMO)

Monthly Cash Flows



Passthrough: \$1 million par pooled mortgage loans

Pooled monthly cash flow:
1) Interest
2) Scheduled Principal
3) Prepayment

Rule for distribution of cash flow pro rata basis

Collateralized Mortgage Obligation (three classes)

Rule for distribution of cash flow to three classes

<u>Class (par value)</u>	<u>Interest</u>	<u>Principal</u>
A (\$400,000)	Pay each month based on par amount outstanding	Receives all monthly principal until completely paid off
B (\$350,000)	Pay each month based on par amount outstanding	After Class A paid off, receives all principal until completely paid off
C (\$250,000)	Pay each month based on par amount outstanding	After Class B paid off, receives all monthly principal

Each loan is for \$100,000
Ten total loans: \$1 million

Source: Smith Breeden Analytics.
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Nominal Spread

- **Incremental yield over benchmark yield (Swaps/Treasurys) that produces a present value equal to the mortgage market value.**
- **Nominal Spread to Swaps ~ Mortgage Yield – Duration Matched Swap Yield**

Option-Adjusted Duration (OAD)

- **Option-Adjusted Duration = $\% \Delta \text{ Price} / \% \Delta \text{ Interest Rates}$**
- **Measures the change in price of a mortgage for a given change in interest rates**
- **OAD is calculated with cashflows changing due to prepayments changing as interest rates change.**
- **OAD also referred to as effective duration**

Modified Duration

- Duration = average time for receipt of all discounted cashflows for a par price bond

$$\text{Duration} = \sum_i (df_i * CF_i * t_i)$$

- Modified Duration = Duration / (1+ Yield)
- Measures the percentage in price of a mortgage for a percentage change in spread
- Modified duration is calculated holding cashflows constant while changing the discounting of the cashflows
- Modified Duration is also referred to as spread duration
- Modified Duration = OAD for a bond with fixed cashflows (not for MBS)

Example: Modified Duration/Option Adjusted Duration

- Fixed rate discount note maturing in 3 months
 - Fixed rate 4.5% coupon maturing in 10 years
 - 3-month uncapped LIBOR Floater maturing in 10 years
LIBOR Floater: Coupon changes quarterly adjusting to 3-month LIBOR
-
- Fixed Rate Discount Note: $\text{ModDur} = \text{OAD} = 0.25$
 - Fixed Rate 10 year Coupon: $\text{ModDur} = \text{OAD} \sim 8.0$
 - LIBOR Floater: $\text{OAD} = 0.25$ Spread Duration ~ 8.0

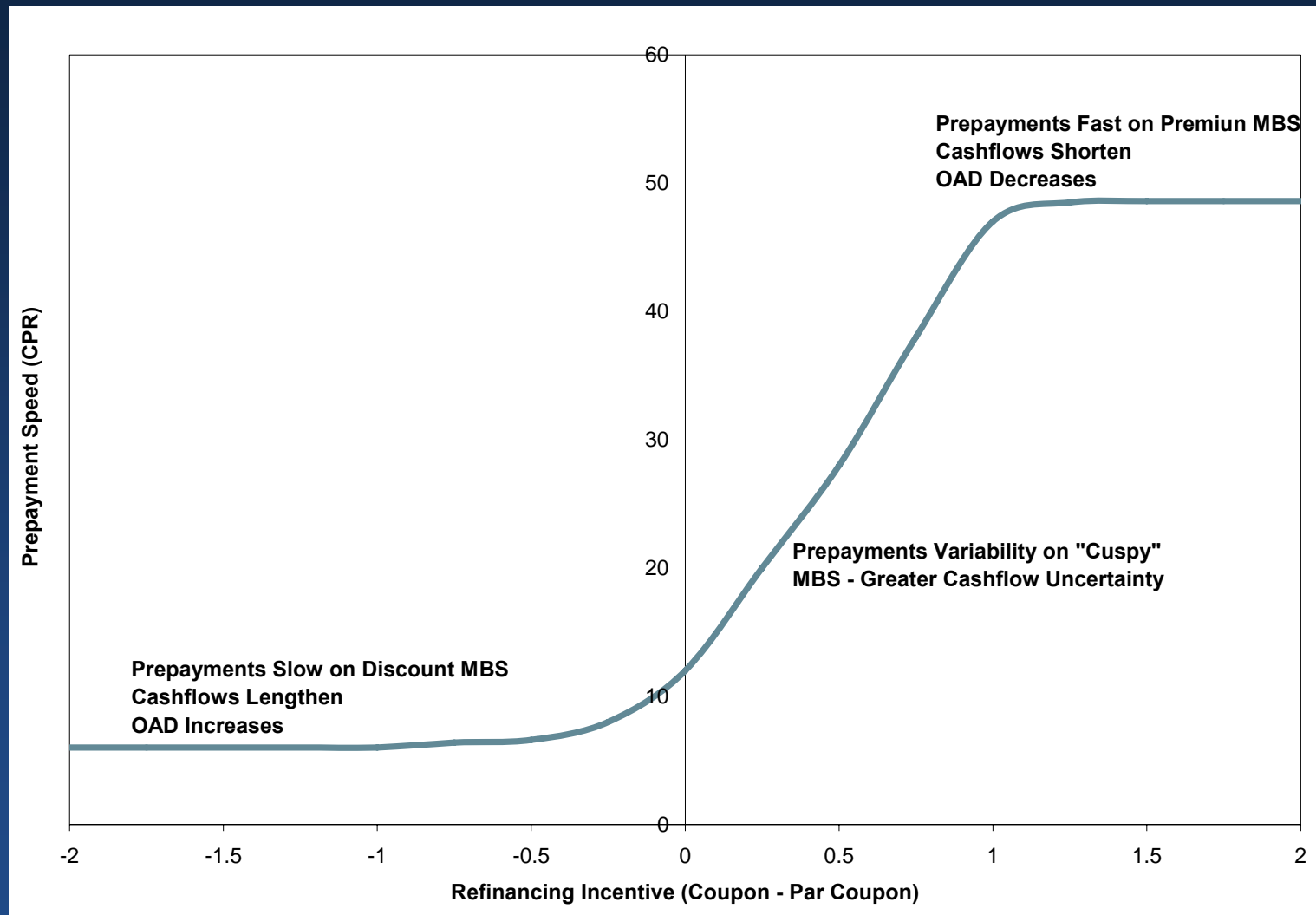
Importance of prepayments

- **Facts: prepayments are a key determinant of mortgage prices and hedge ratios.**
 - **Investor is short a prepayment option.**
 - **Prepayment options are usually exercised when market interest rates are low.**
 - **Advantageous to homeowner.**
 - **Disadvantageous to investor.**
 - **Value of option depends on how it is exercised.**
- **Challenge: predicting when prepayment exercise will occur is difficult.**
- **Competitive Advantage: a good prepayment model provides an advantage in identifying relative value and managing portfolio risk.**

Source: Smith Breeden Analytics.

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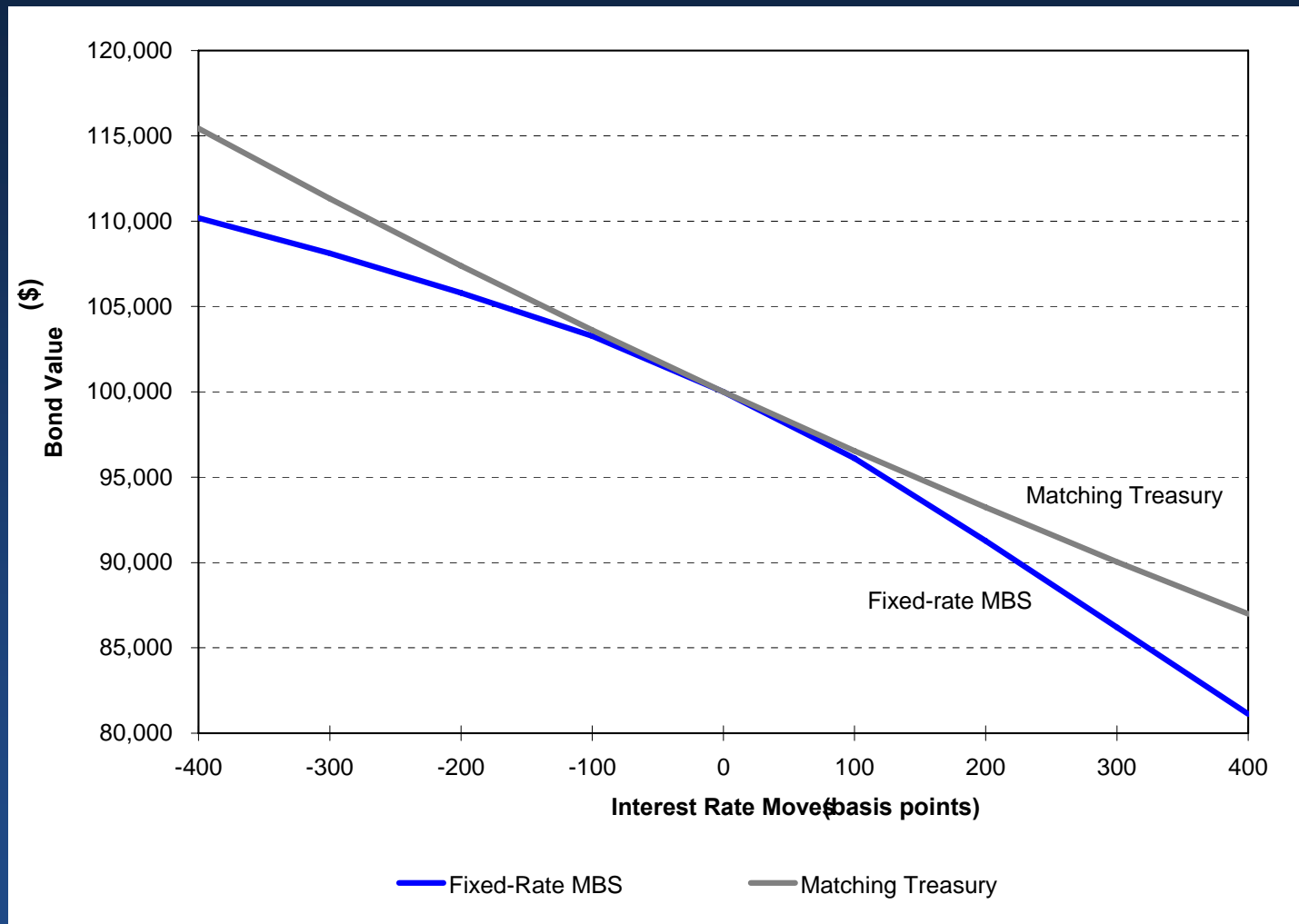
Prepayment curve relative to refinancing incentive.



Source: Smith Breeden Analytics

This example is shown for illustrative purposes only to demonstrate an aspect of Smith Breeden's investment decision making process, not to highlight the profitability of any particular investment or to provide a current assessment of U.S. economic conditions. This presentation is provided for informational purposes only and should not be deemed as a recommendation to buy or sell securities.

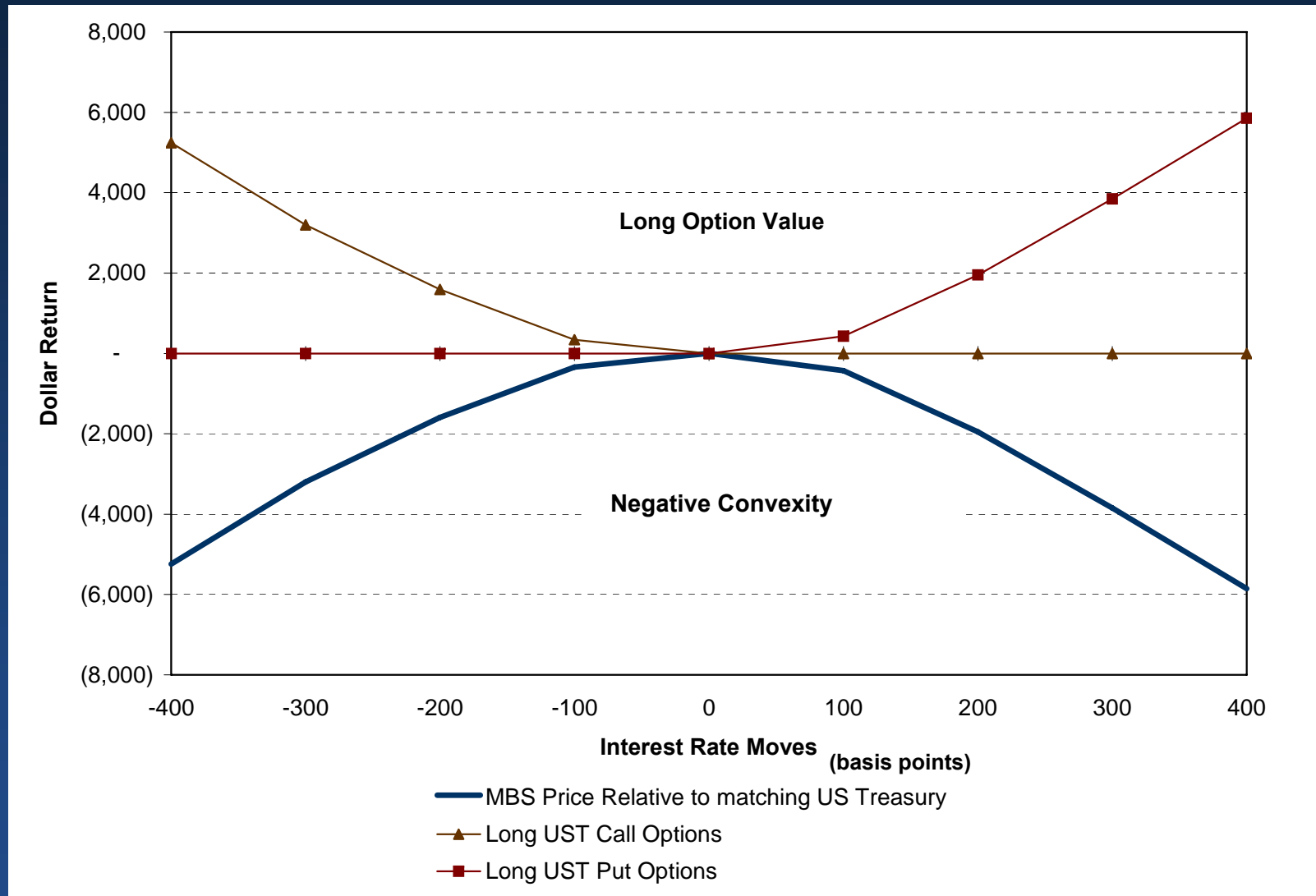
MBS investors are “short” a prepayment option to the U.S. homeowner



Source: Smith Breeden Analytics.

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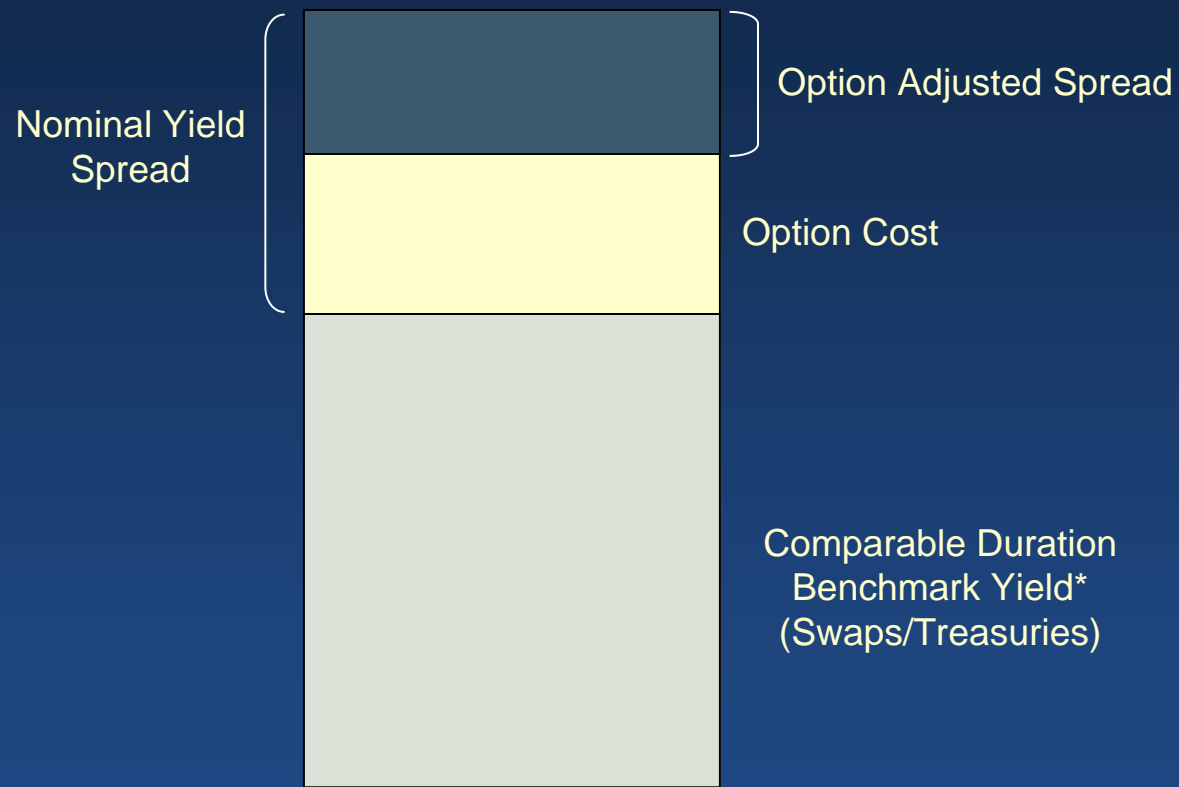
MBS negative convexity can be hedged



Source: Smith Breeden Analytics.

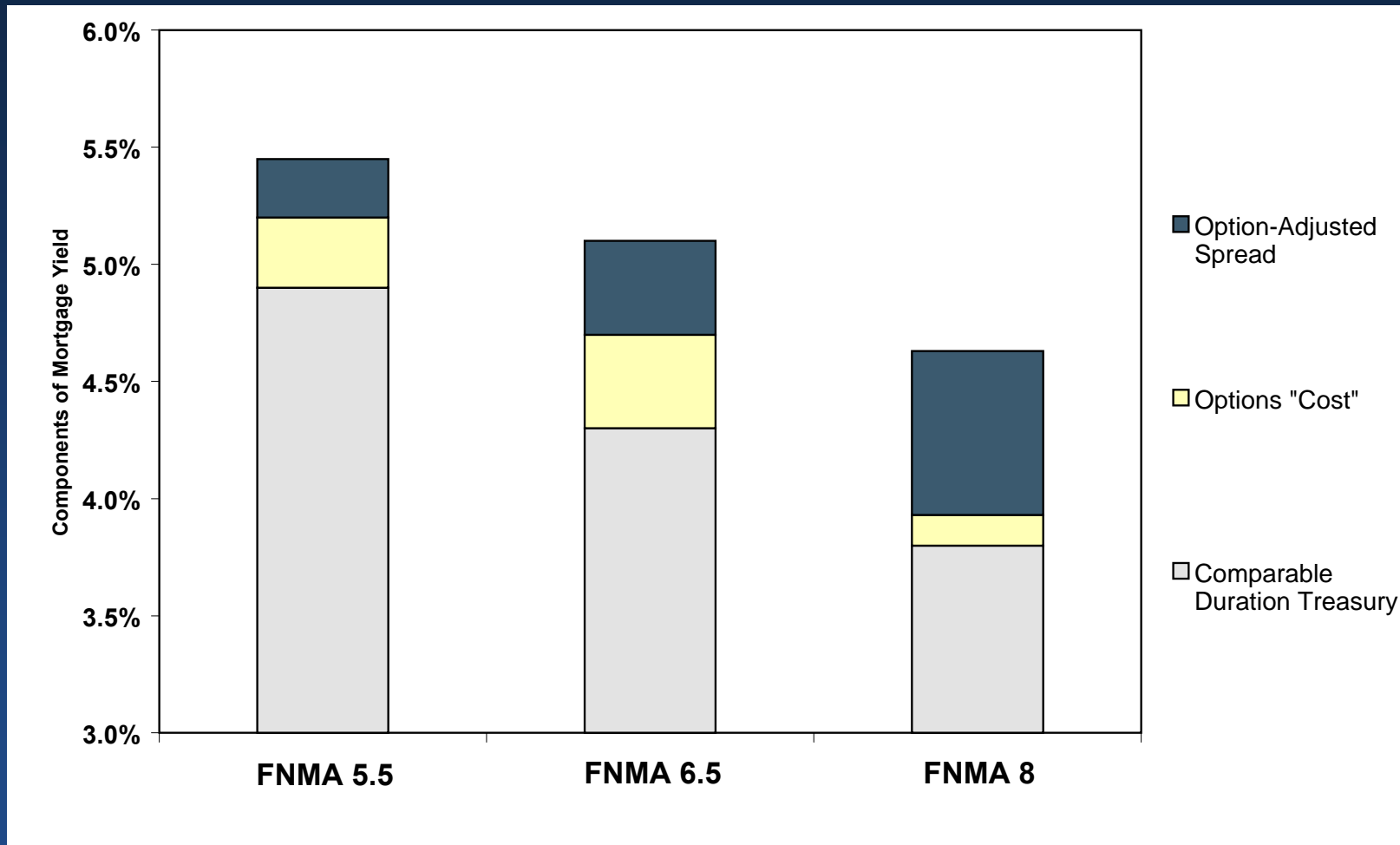
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Components of Mortgage Yield



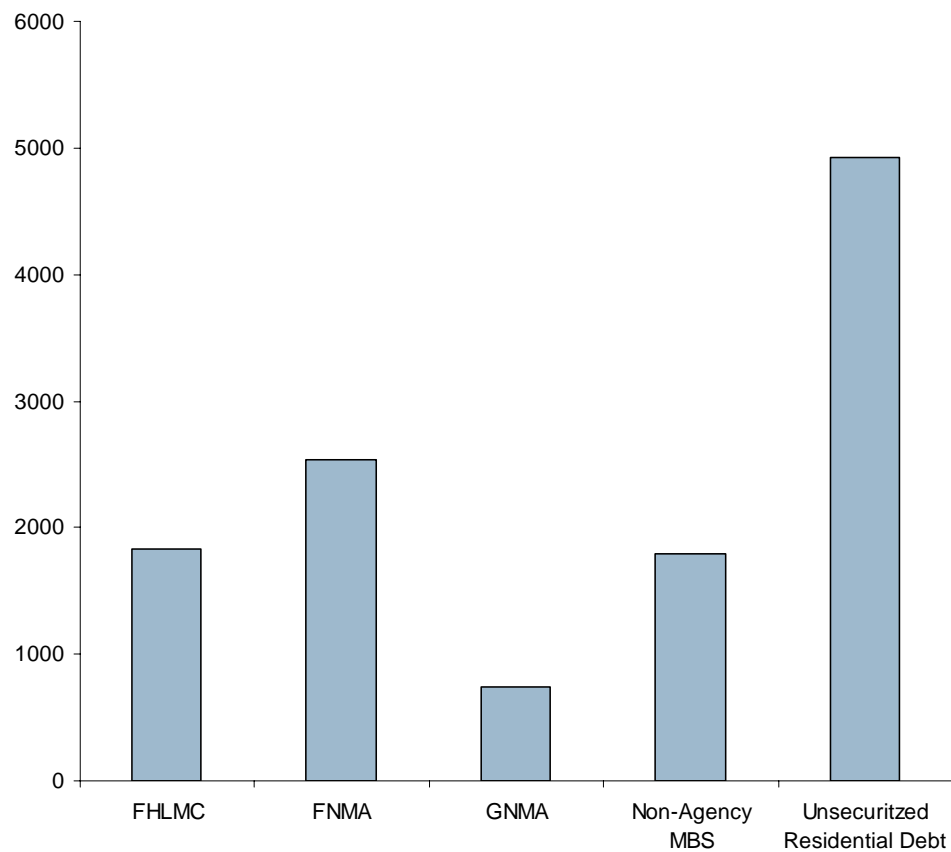
*Comparable duration benchmark yield for each mortgage cashflow.

Option-adjusted spread analysis enables “risk-adjusted” yield comparisons



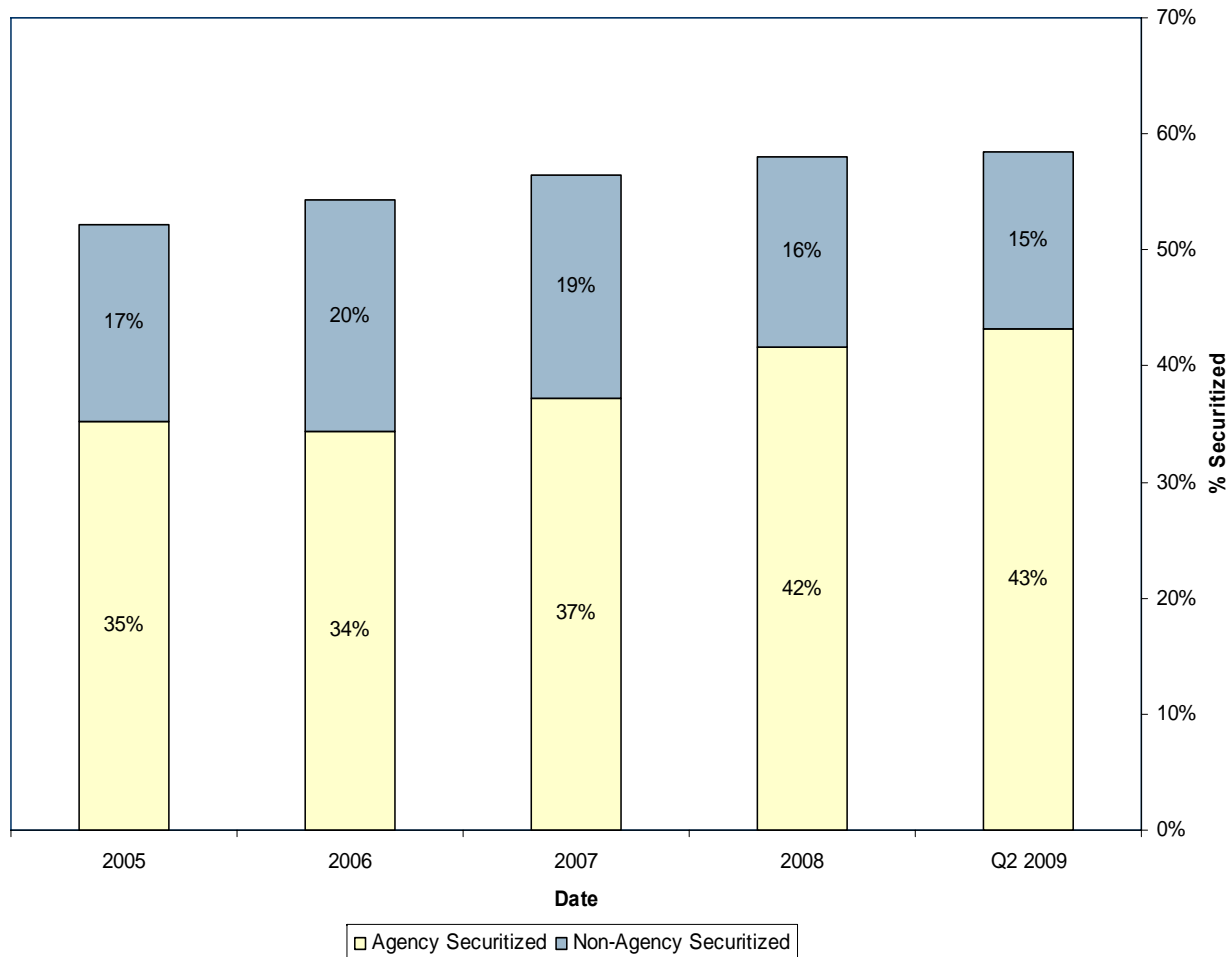
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U.S. Mortgage Debt Outstanding Q2 2009 (\$ billions)



Source: Federal Reserve.
This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

Percentage of U.S. Mortgage Debt Securitized

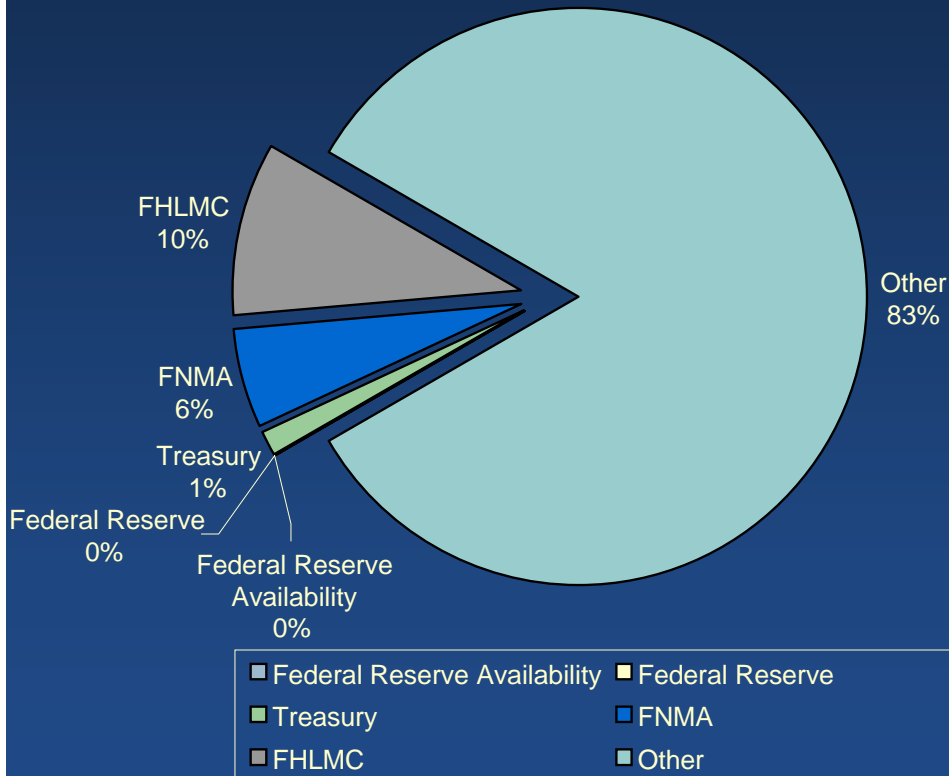


Source: Federal Reserve.
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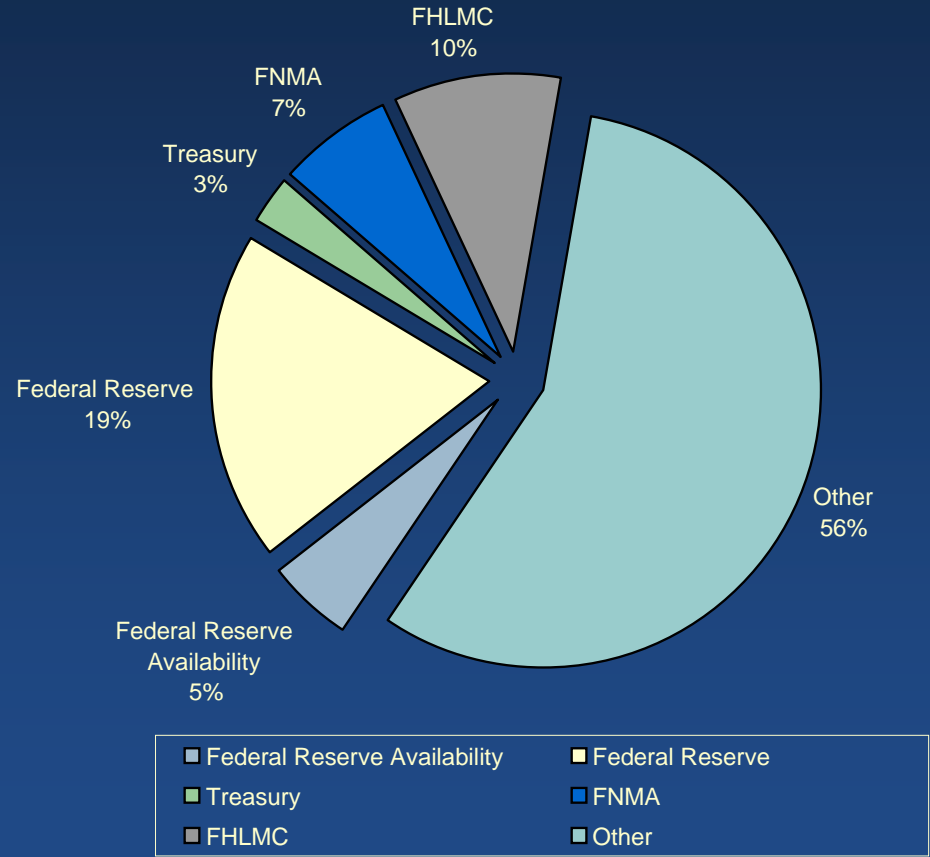
U.S. Government institutional holdings of Agency MBS have increased significantly.

Holder of Mortgages with Agency Guarantee

December 2008

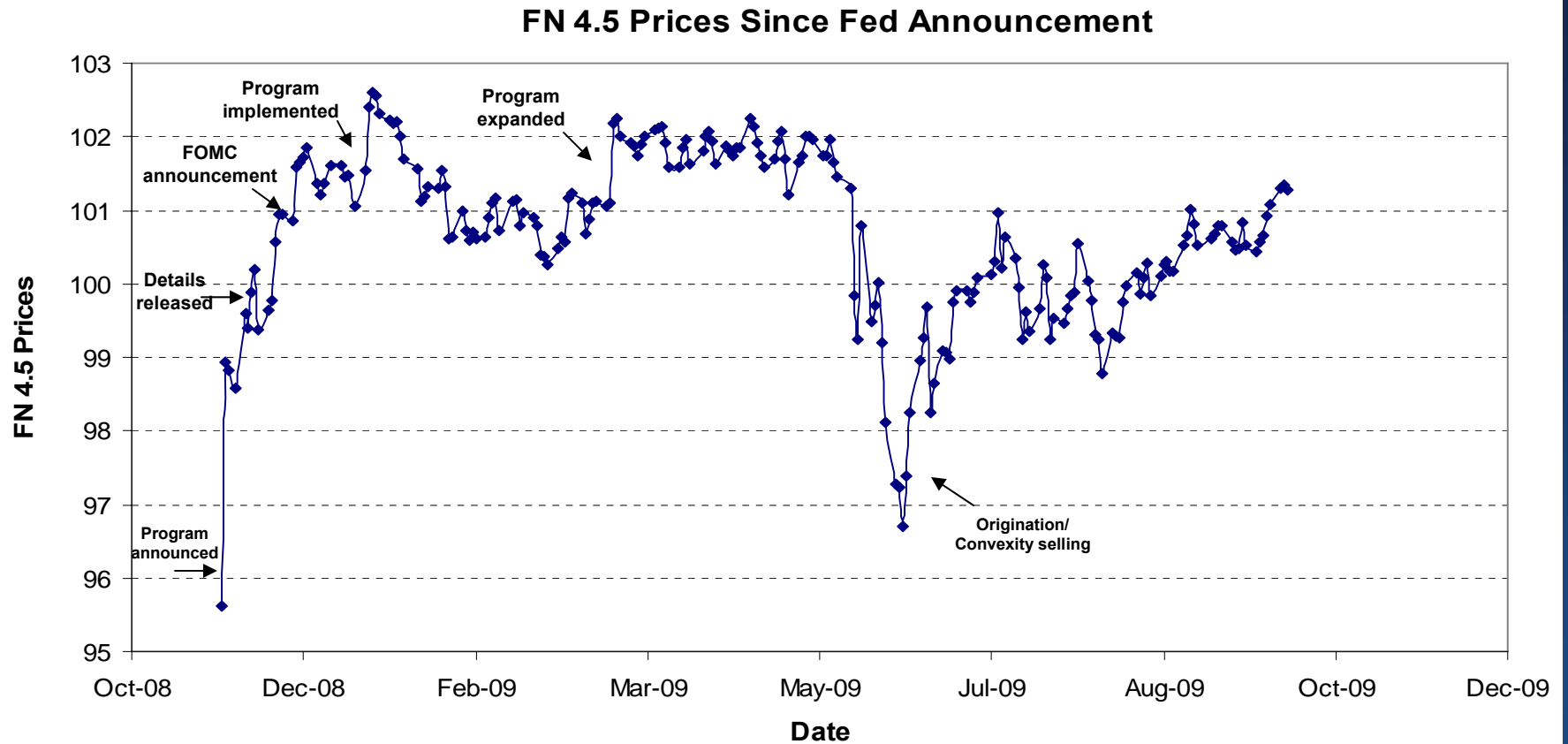


November 2009



Source: Federal Reserve and Smith Breeden estimates.
 This information is taken, in part, from sources that we deem reliable but no warranty is made as to accuracy.

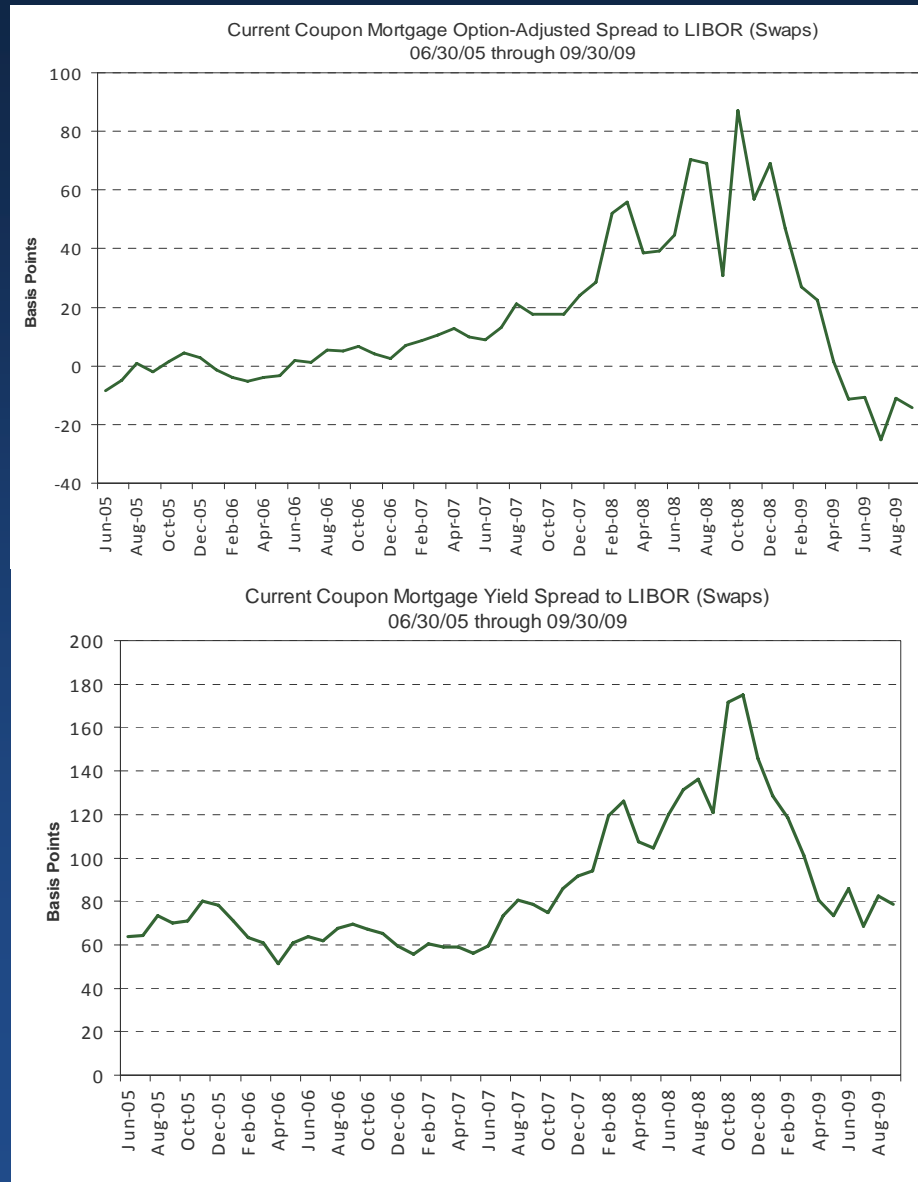
The Federal Reserve's involvement has boosted mortgage pricing.



Data as of September 30, 2009

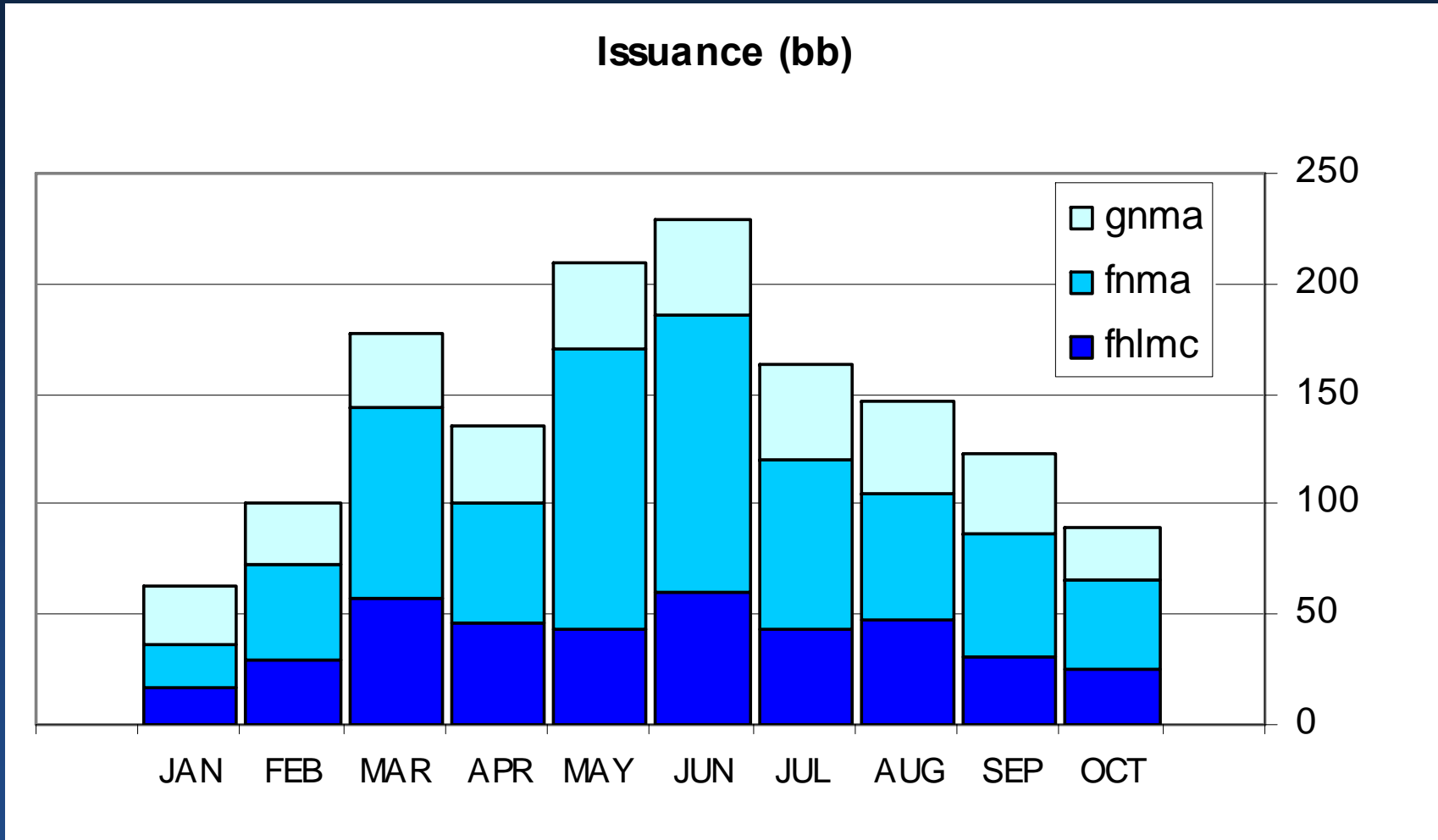
Source: Federal Reserve. This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

The Fed has focused its MBS purchases in higher coupons since August, leading to wider spreads in current coupon mortgages.



Data as of September 30, 2009
Source: Smith Breeden Analytics.

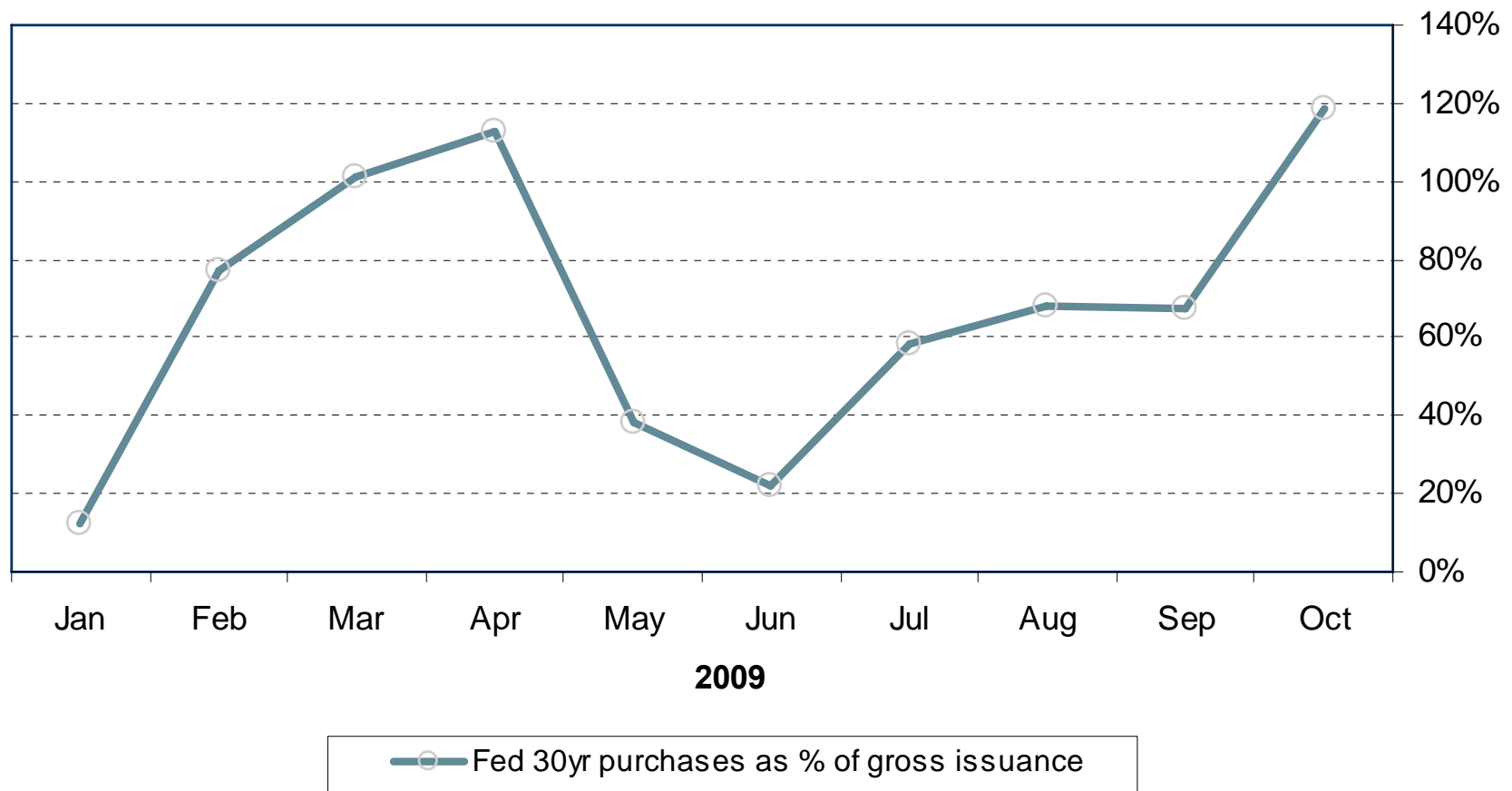
Gross Issuance of Agency Mortgages (2009)



Source: eMBS.
This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

Federal Reserve Purchases as a % of Gross Issuance is Currently >100%

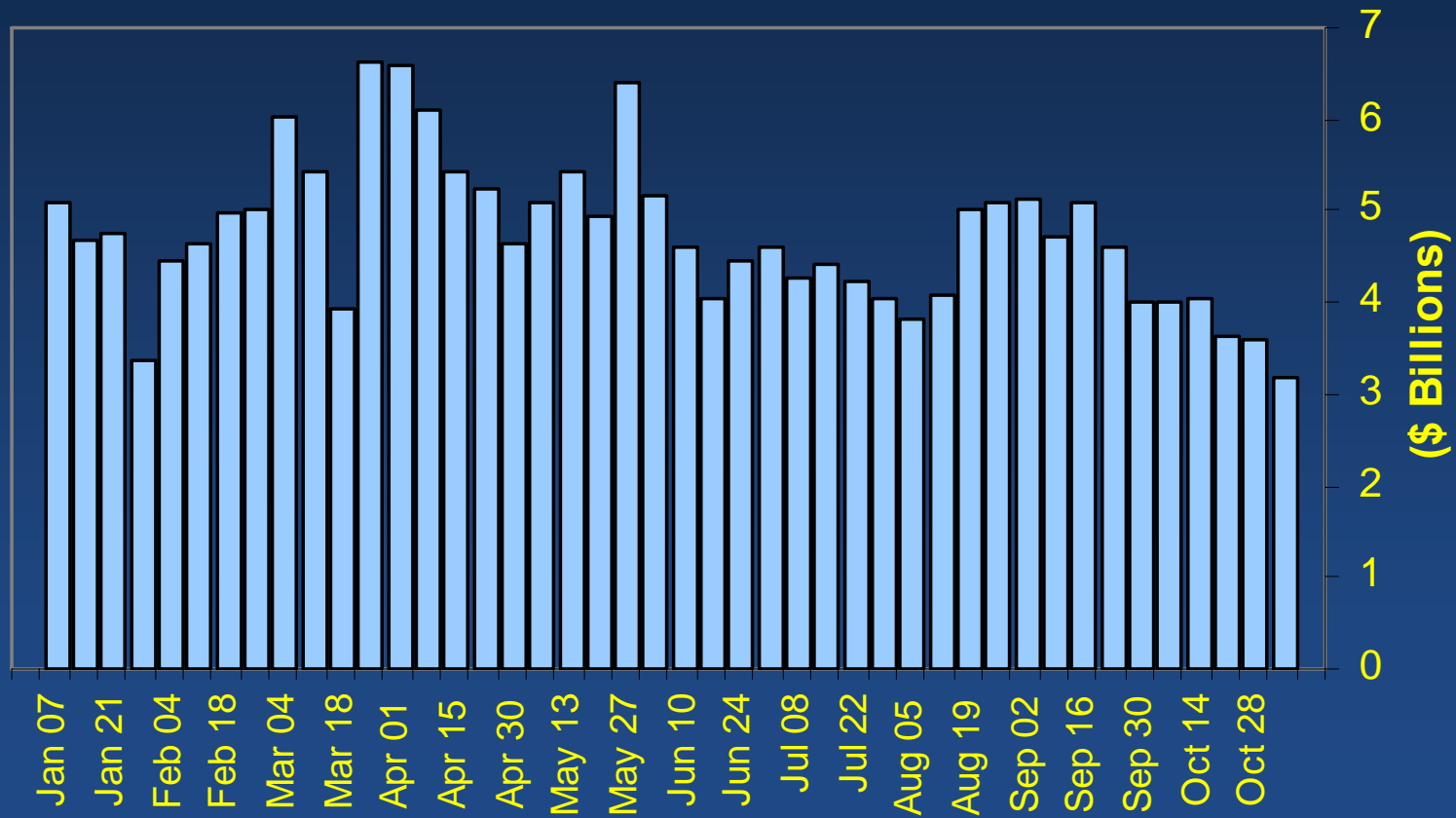
January 1, 2009 through October 31, 2009



Source: Federal Reserve, eMBS.
This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

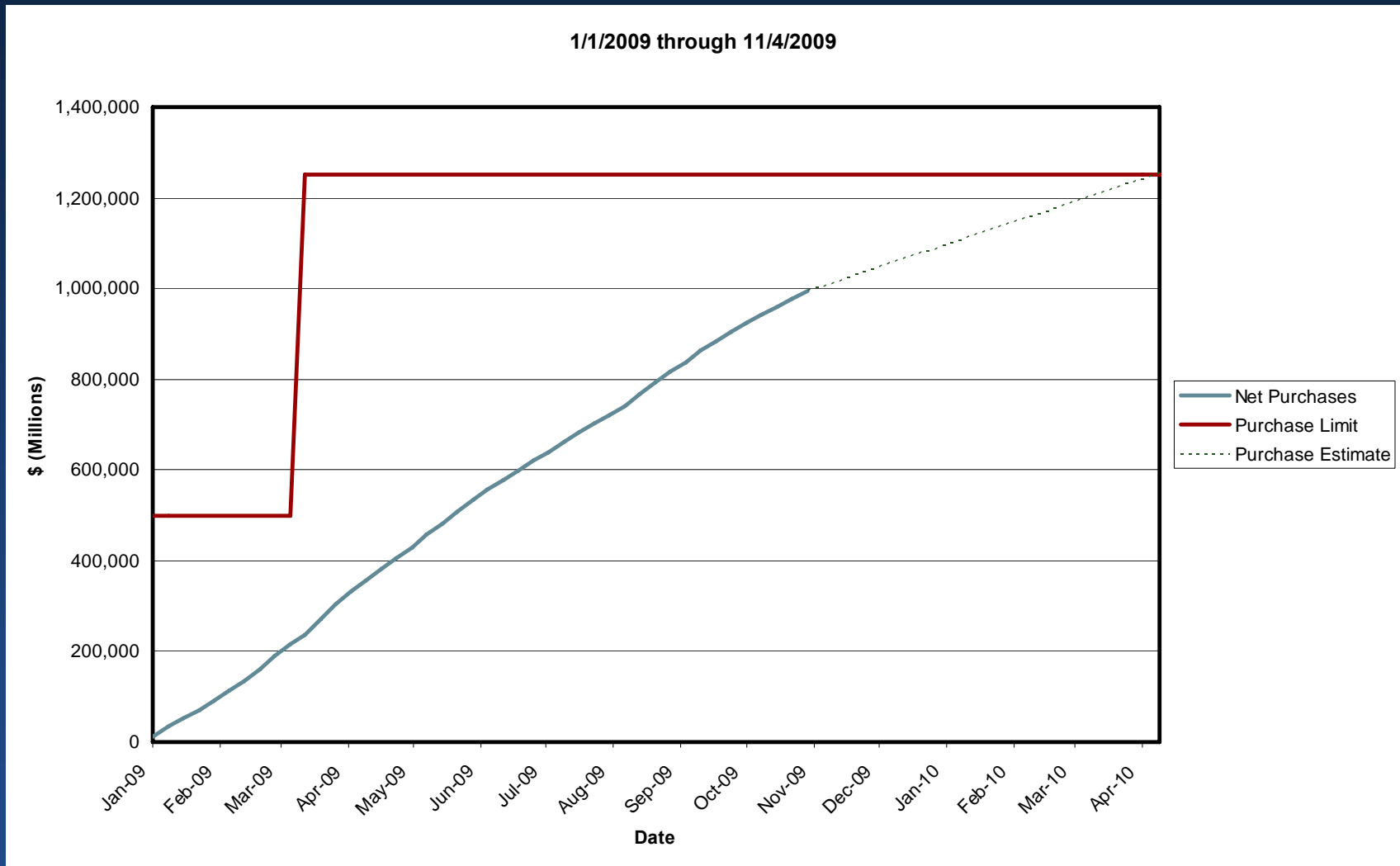
Average Federal Reserve Purchase (\$ billions) per day

1/1/2009 through 10/28/2009



Source: Federal Reserve.
This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

Federal Reserve Purchases to Date and Estimated vs. Purchase Limit

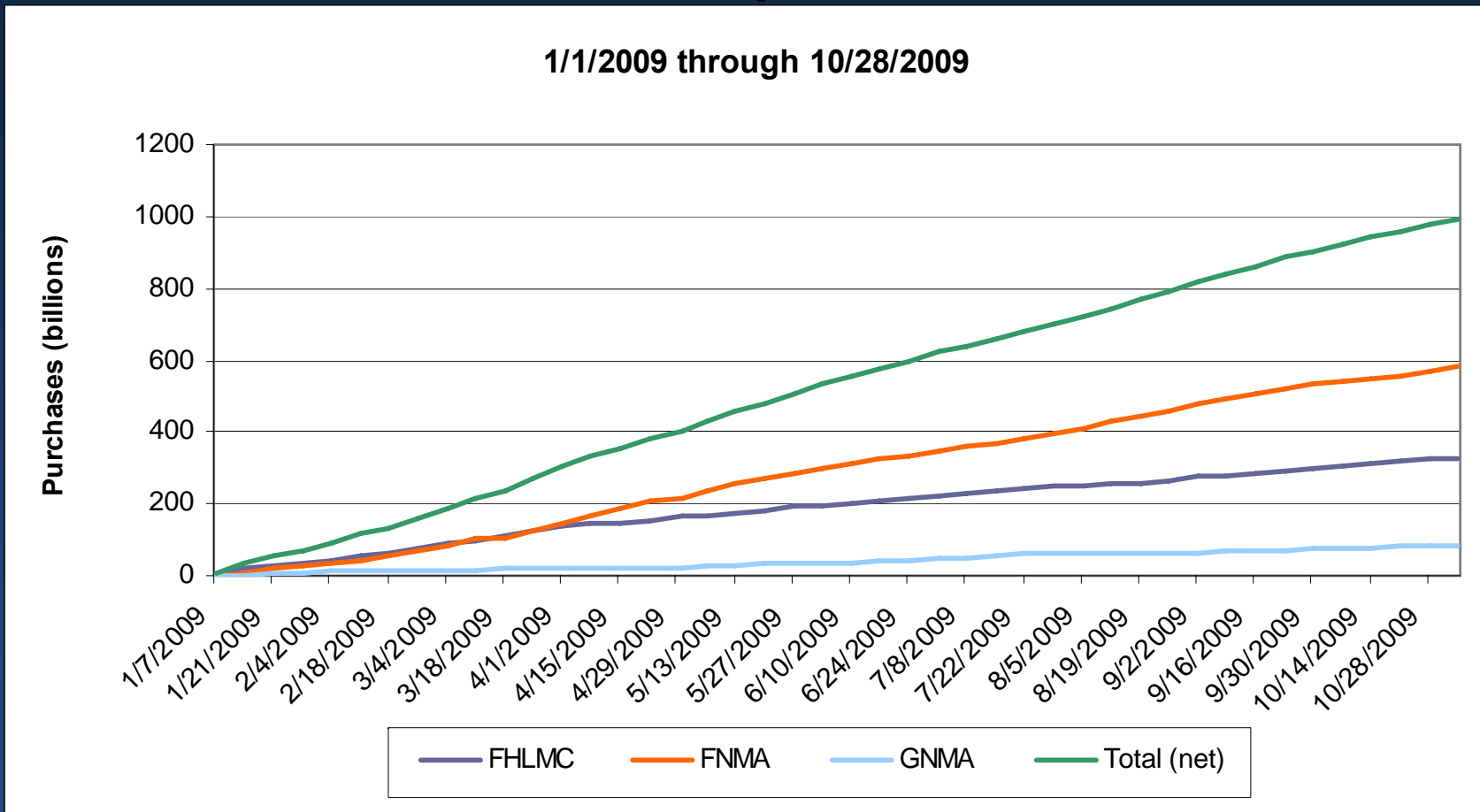


Source: Federal Reserve and Smith Breeden estimates.
Actual data from 1/1/2009 through 7/7/2009. Forecasted data from 7/8/2009 through 4/28/2010.
This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

Federal Reserve Purchases by Agency

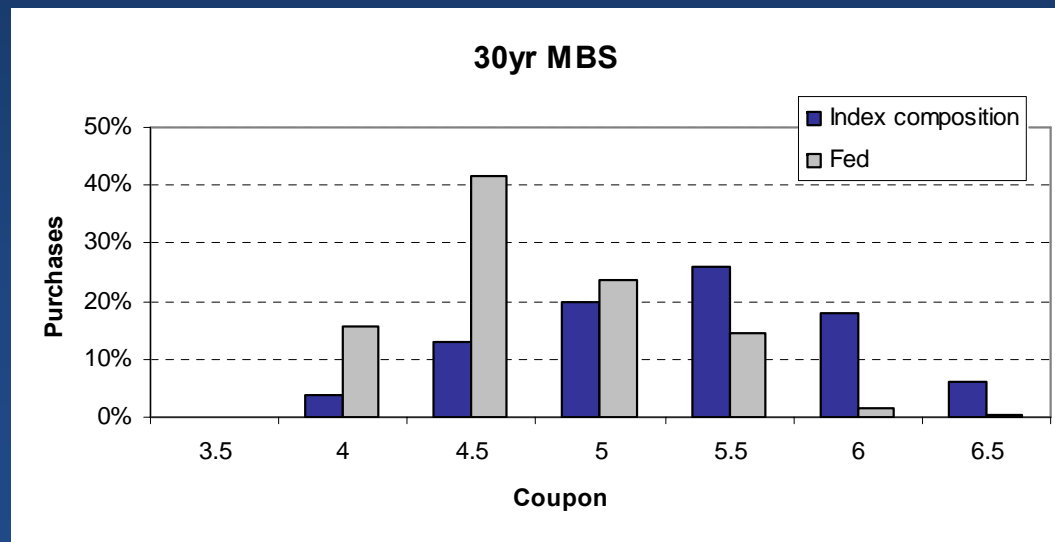
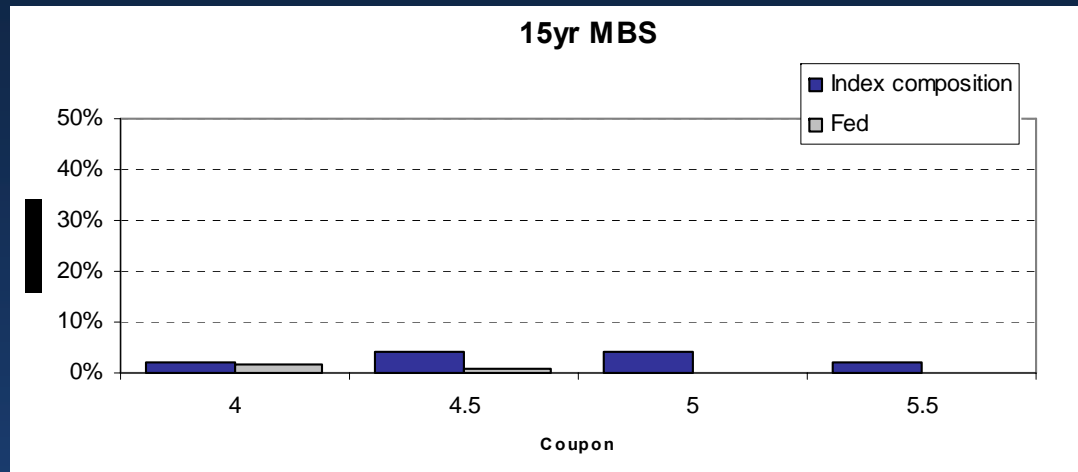
1/1/2009 through 7/1/2009

1/1/2009 through 10/28/2009



Source: Federal Reserve.
 This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

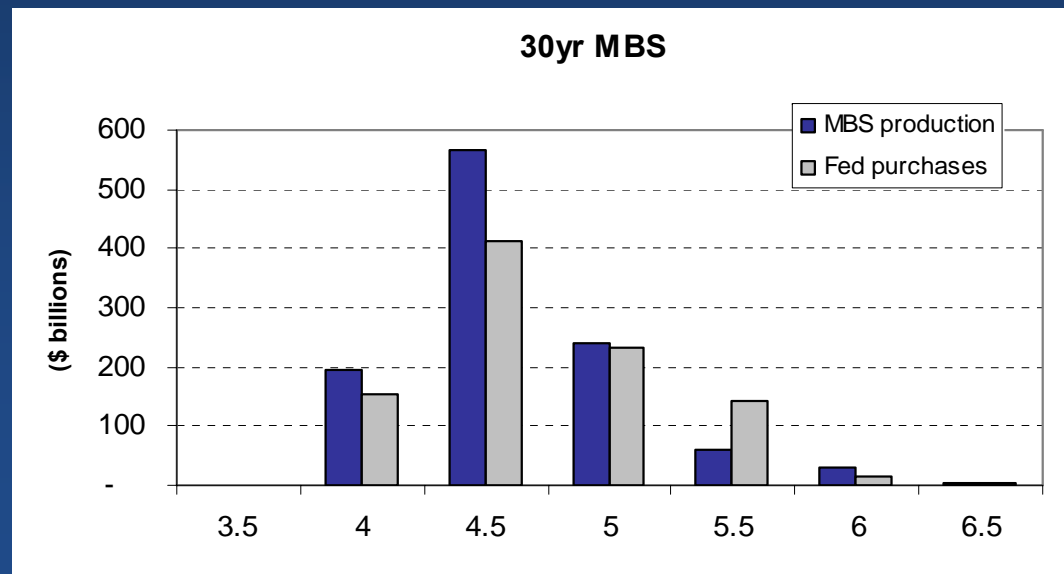
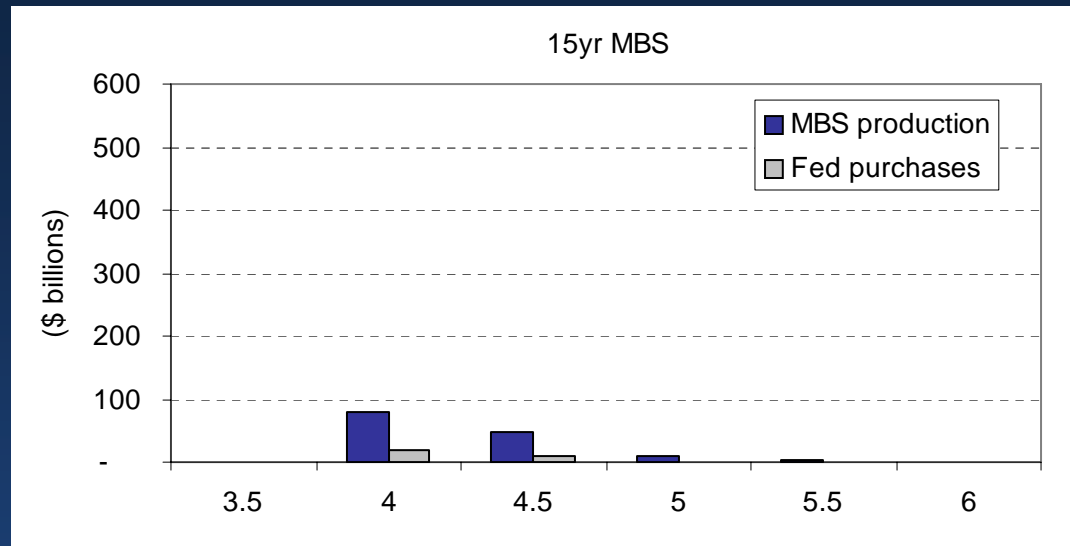
The Federal Reserve focused its initial purchases in lower coupon Agency MBS, though recently it shifted to higher coupons.



Data as of November 4, 2009

Source: Federal Reserve and eMBS. This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

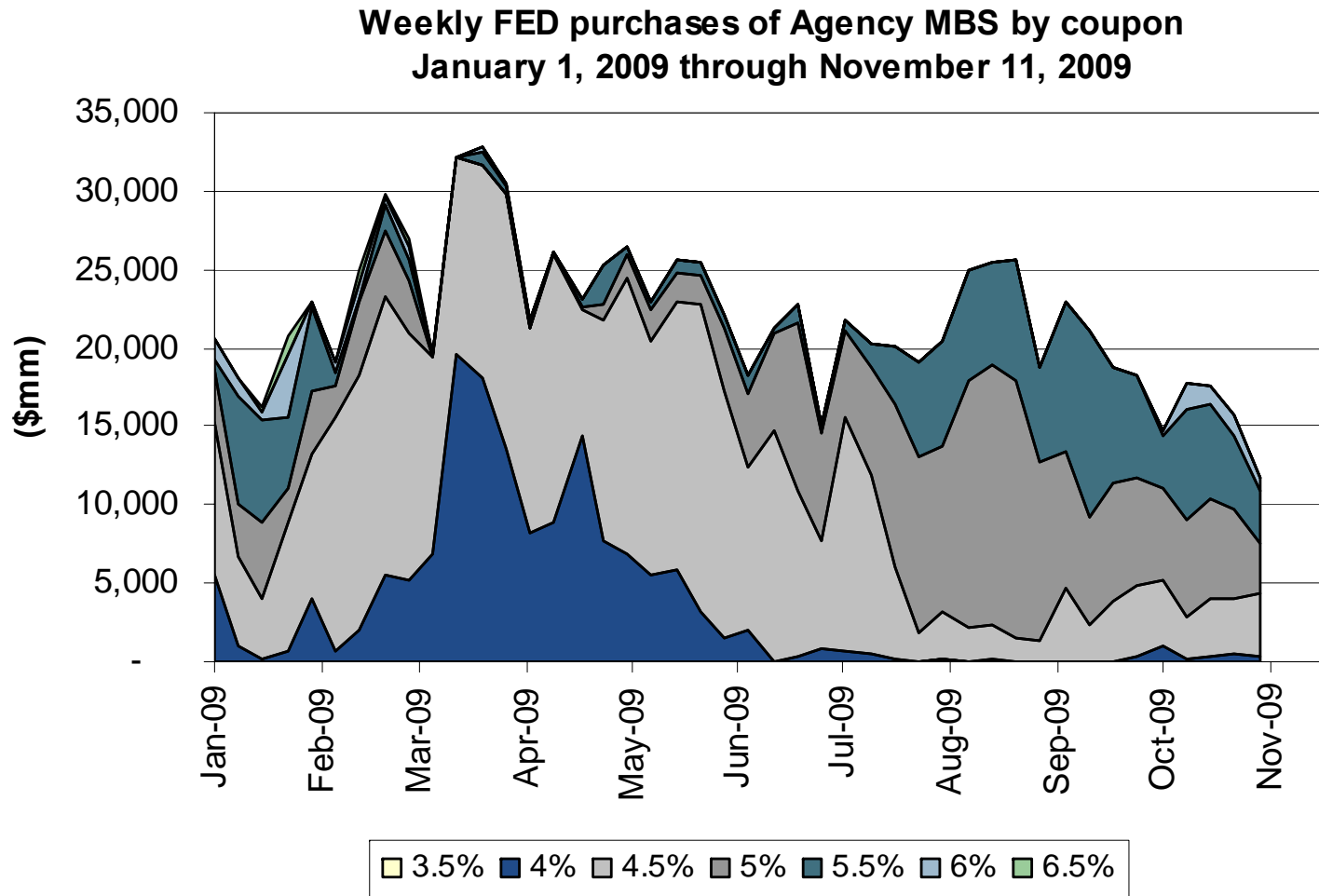
The Federal Reserve's Agency MBS purchase program has absorbed a large percentage of new MBS origination, particularly in the 30-year space.



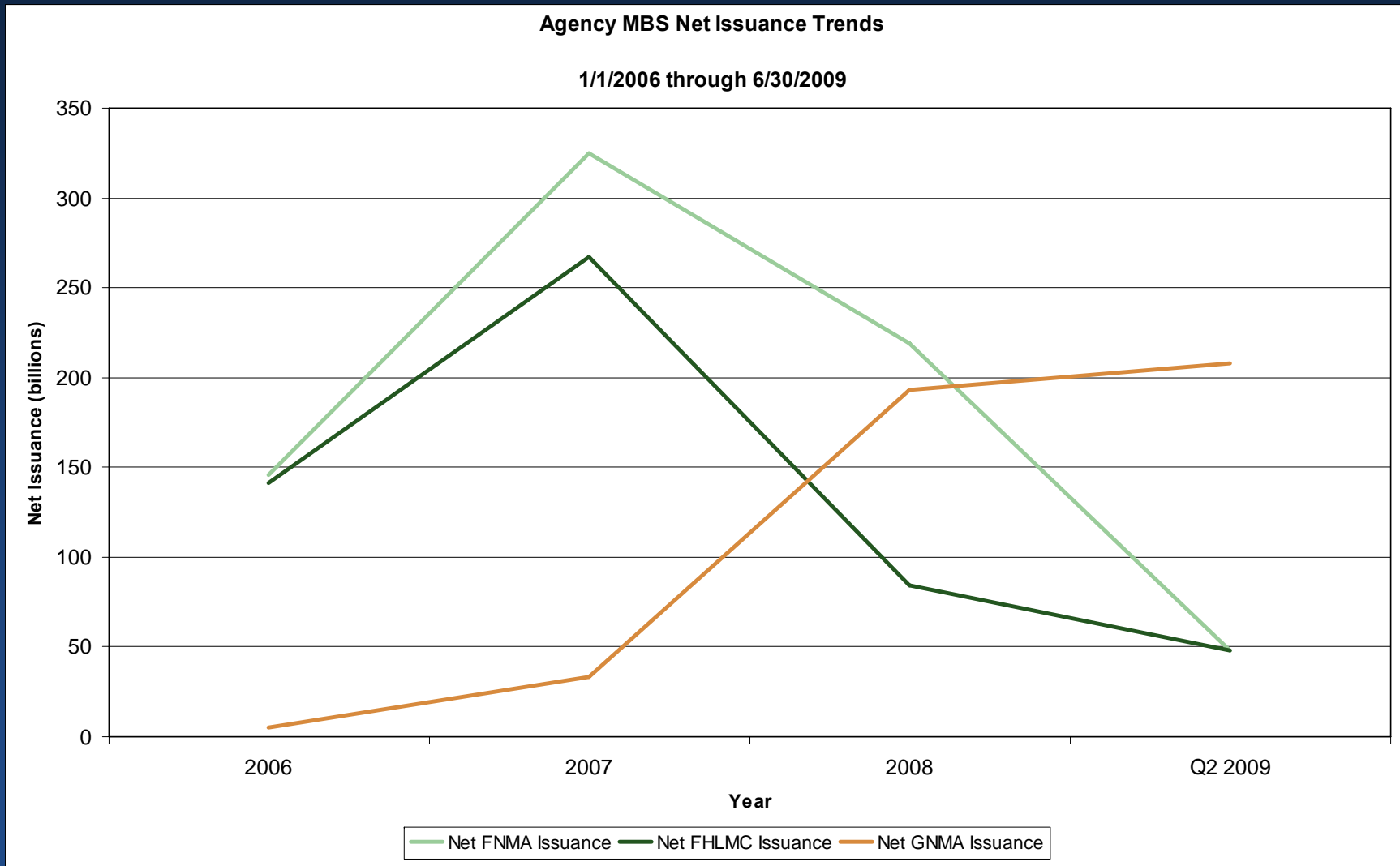
Data as of November 4, 2009

Source: Federal Reserve and eMBS. This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

More Recent Fed purchases have moved up the coupon stack.

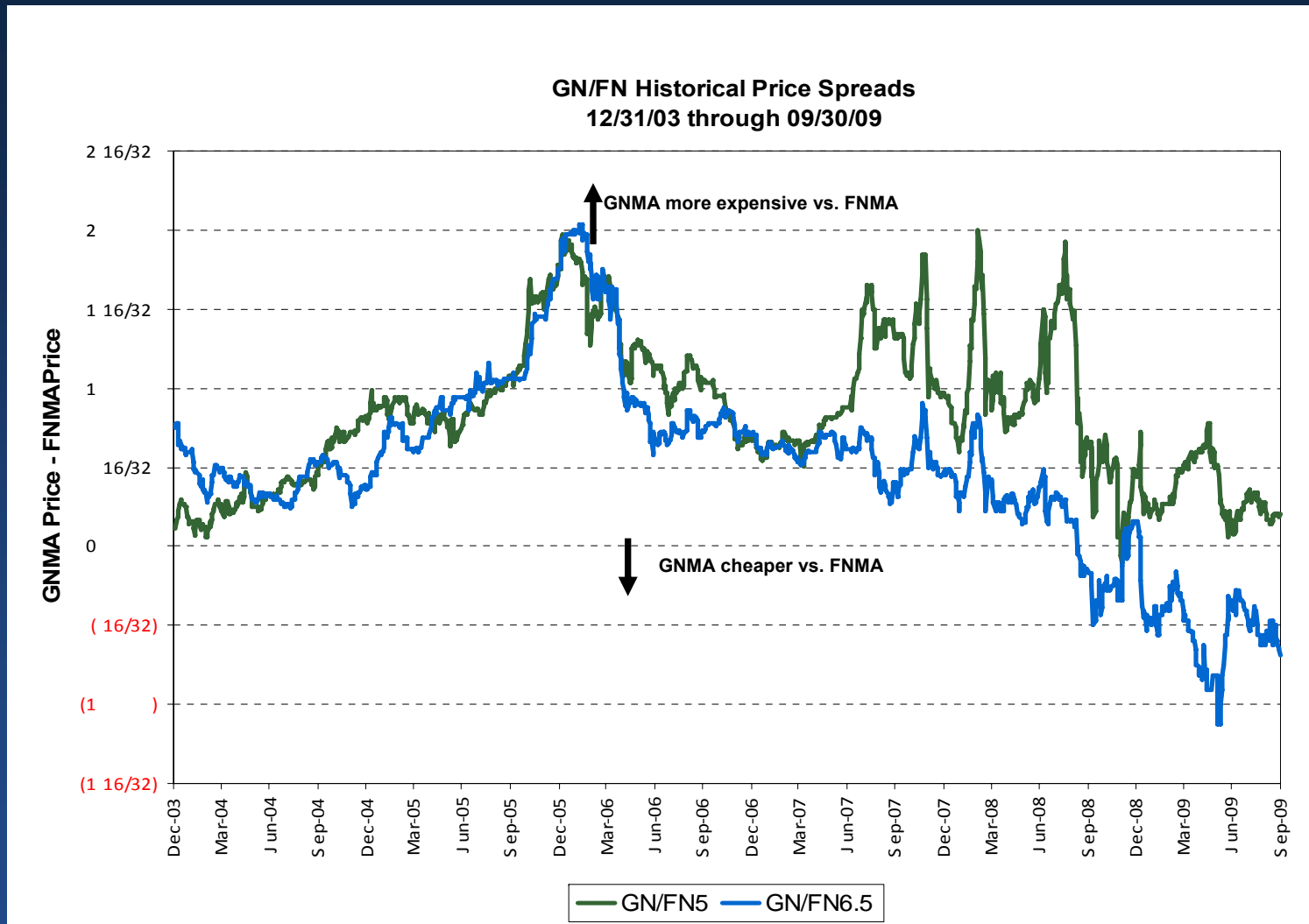


Net issuance of FNMA and FHLMC has declined. While GNMA issuance has increased substantially.



Source: Federal Reserve.
This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

GNMAs underperformed FNMA as few buyers emerged to take down the excess supply in the market, and the Federal Reserve program focused on FNMA MBS.



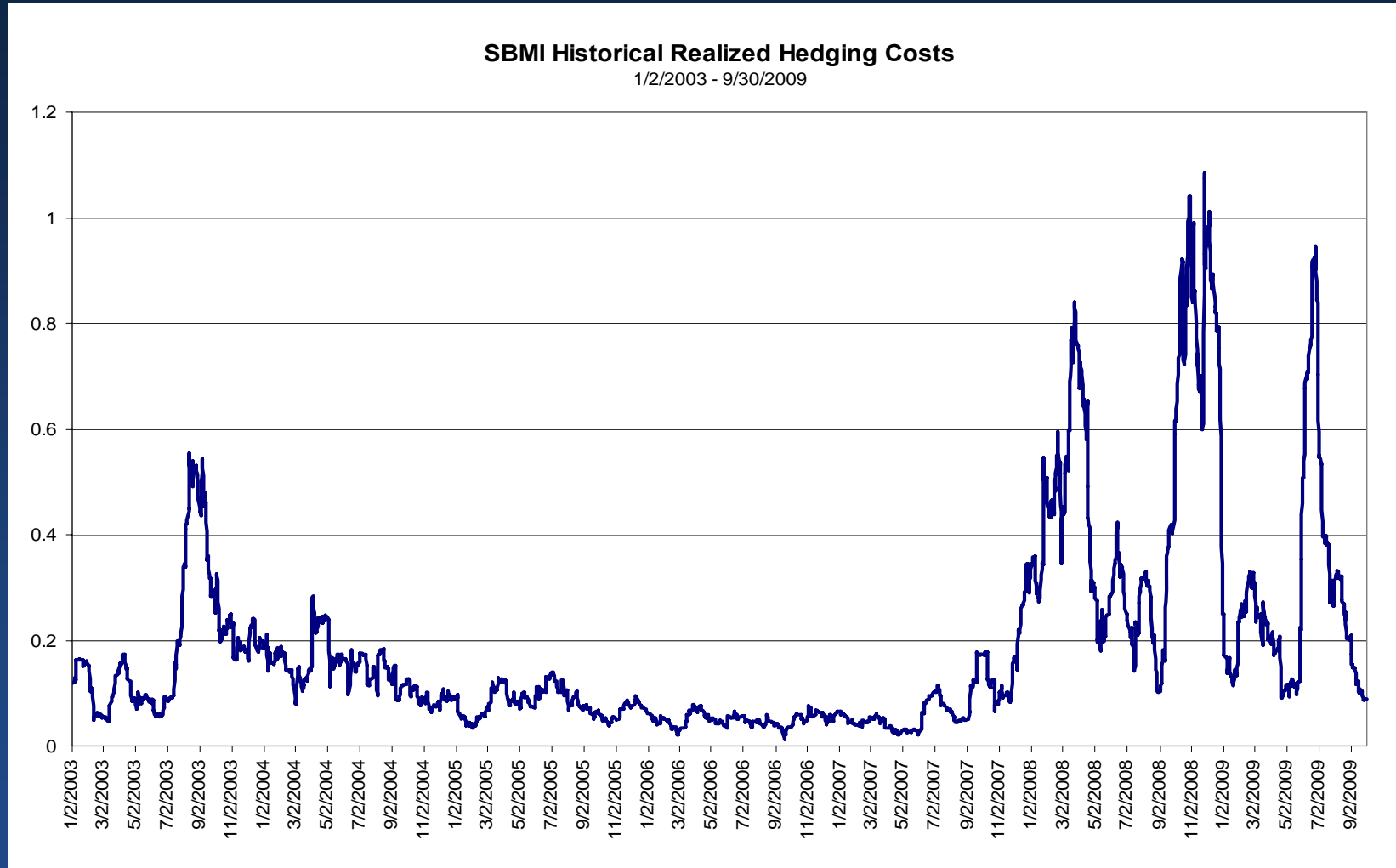
Data as of September 30, 2009
Source: Smith Breeden Analytics.

GNMA Securities – Full Faith and Credit of U.S. Government

From a credit standpoint GNMA MBS are equivalent to U.S. Treasuries

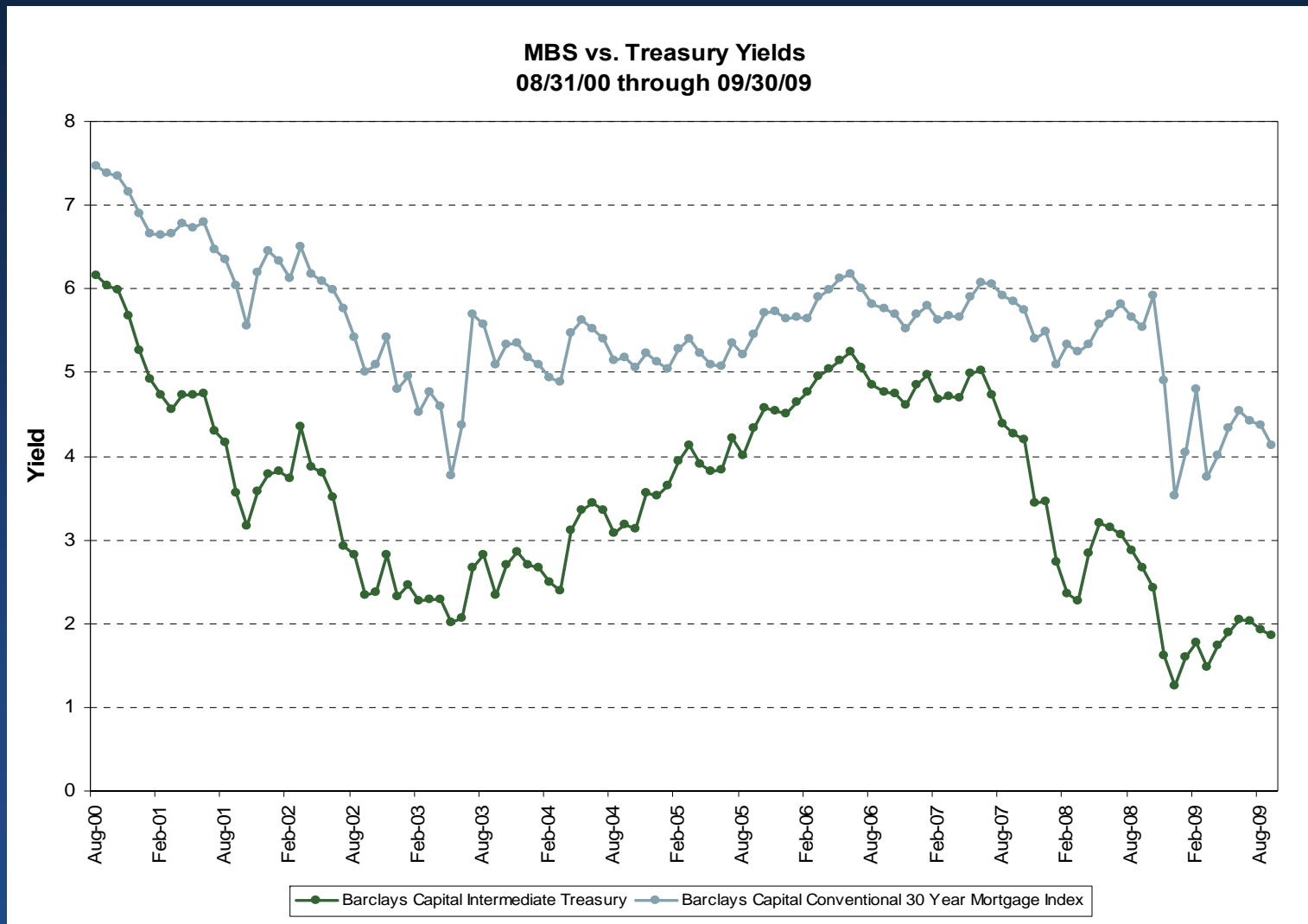
“The Government National Mortgage Association (“Ginnie Mae”), a wholly-owned corporate instrumentality of the United States of America within the U.S. Department of Housing and Urban Development, guarantees the timely payment of principal and interest on each Class of Securities. The Ginnie Mae guaranty is backed by the full faith and credit of the United States of America.”

As realized volatility retreats, realized hedging costs are dropping significantly.



Data as of September 30, 2009
Source: Smith Breeden Analytics

Mortgage securities have traditionally demonstrated superior yield characteristics to U.S. Treasuries.



Data as of September 30, 2009.

Source: Barclays Capital. This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

Comparison of Historical Performance

Annualized Total Return							
	Barclays Capital Fixed-Rate Mortgage Index	Barclays Capital 15yr Conv Mortgage Index	Barclays Capital Hybrid ARM Mortgage Index	BarclaysCapital Intermediate Treasury Index	Agency	Agency 3 to 5 Years	GNMA
1 year	9.93	9.53	8.49	5.70	7.45	9.09	9.04
2 year	8.49	8.42	7.57	6.96	7.15	8.03	8.12
5 year	5.81	5.56		4.70	5.07	5.25	5.66
10 year	6.53	6.29		5.56	6.25	6.38	6.39
15 year	6.80	6.55		5.90	6.57	6.42	6.75

Annualized Monthly Standard Deviation							
	Mortgage	15yr Conv Mortgage	Hybrid ARM	Treasury	Agency	Agency 3 to 5 Years	GNMA
1 year	4.60	4.60	1.98	5.03	5.06	4.14	4.25
2 year	3.75	3.71	1.75	4.55	4.09	3.60	3.50
5 year	2.98	2.90		3.41	3.15	2.91	2.79
10 year	2.93	2.84		3.40	3.76	3.37	2.73
15 year	2.95	2.86		3.23	3.79	3.15	2.82

Data as of August 31, 2009

Source: Barclays Capital and Smith Breeden Analytics. Standard Deviation calculations from Smith Breeden Analytics.

Note: Numbers are rounded. This information is taken, in part, from sources that we deem reliable, but no warranty is made as to accuracy.

Net Issuance of Securitized Debt in the U.S. (\$ billions)

	ABS**	CMBS	MBS	Corporates	Agencies	Treasuries	Non Treasury	Total
2005	-8	104	150	195	54	263	495	758
2006	-4	175	302	330	86	177	888	1065
2007	64	165	531	422	-64	135	1118	1253
2008	-99	-31	493	229	-39	396	553	949
2009:								
H1 annualized	-44	-32	572	544	0	1381	1040	2420
*H2 annualized	-30	-2	490	44	-120	1692	382	2074
2010*	-25	-10	450	0	-170	1616	245	1861

*Forecasted data

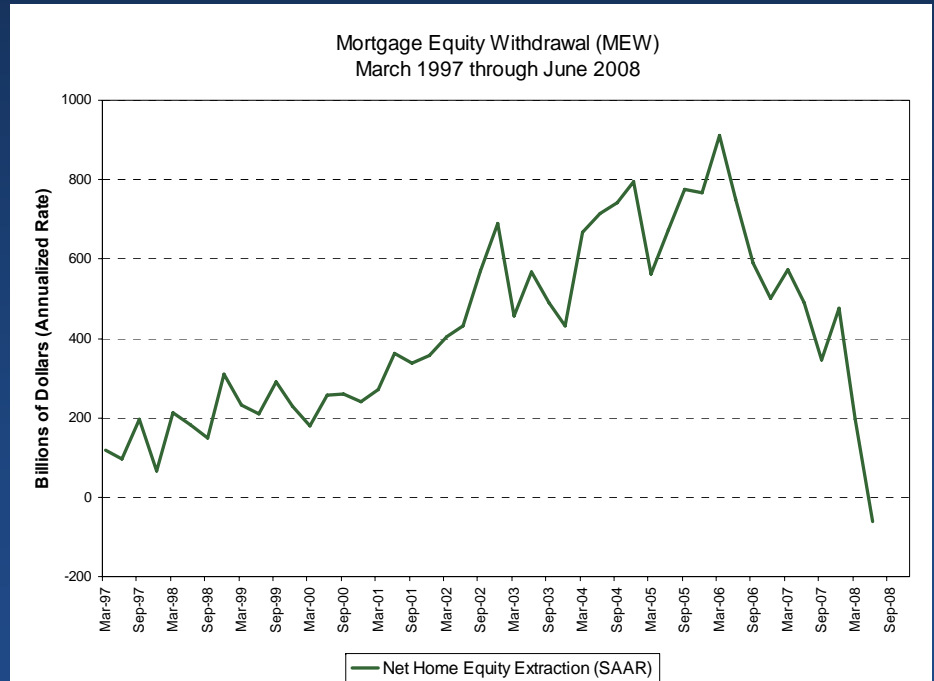
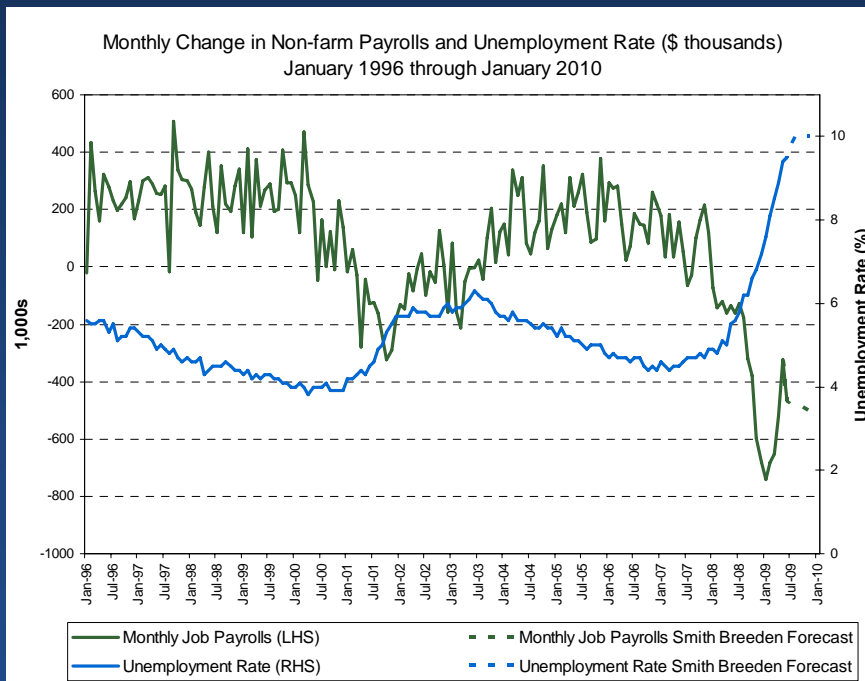
**Includes fixed and floating rate

Source: JP Morgan Estimates

Figures have been rounded. This information is taken from sources that we deem reliable, but no warranty is made as to accuracy.

Consumer Sector

- **Job growth – a good proxy for income expectations – will be negative through the end of 2009.**
 - **Job loss has been broad-based across manufacturing and services.**
 - Unemployment rate will peak close to 10%.
 - Low average weekly hours bodes poorly for the near-term outlook.
- **A negative wealth effect from housing (transmitted via MEW) will drag on consumers.**



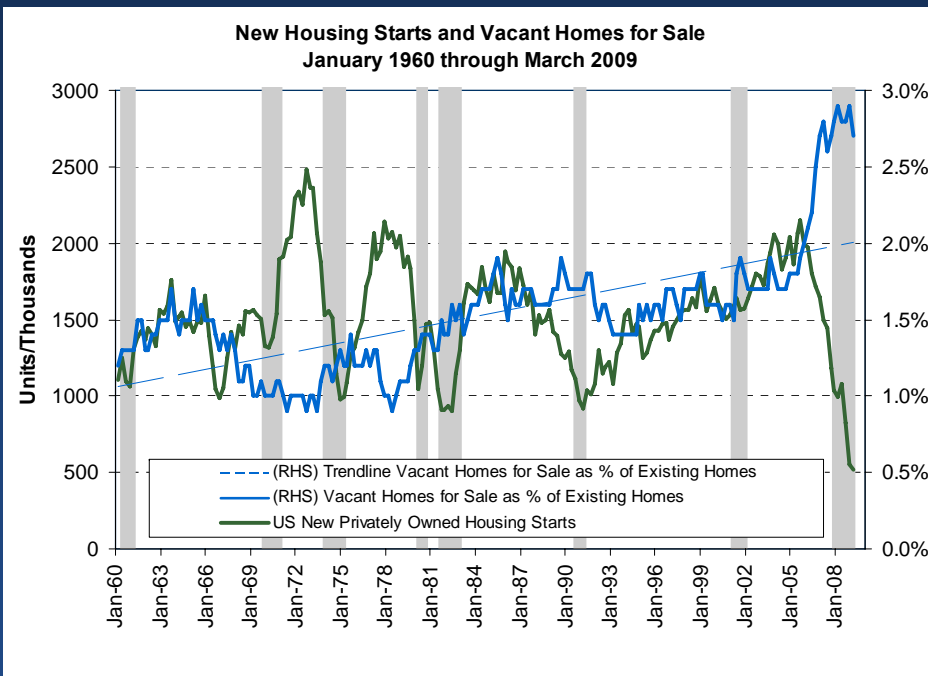
July 15, 2009.

Source: Bureau of Labor Statistics and Smith Breeden Analytics (Non-farm payroll) and Federal Reserve (Mortgage Equity Withdrawal).

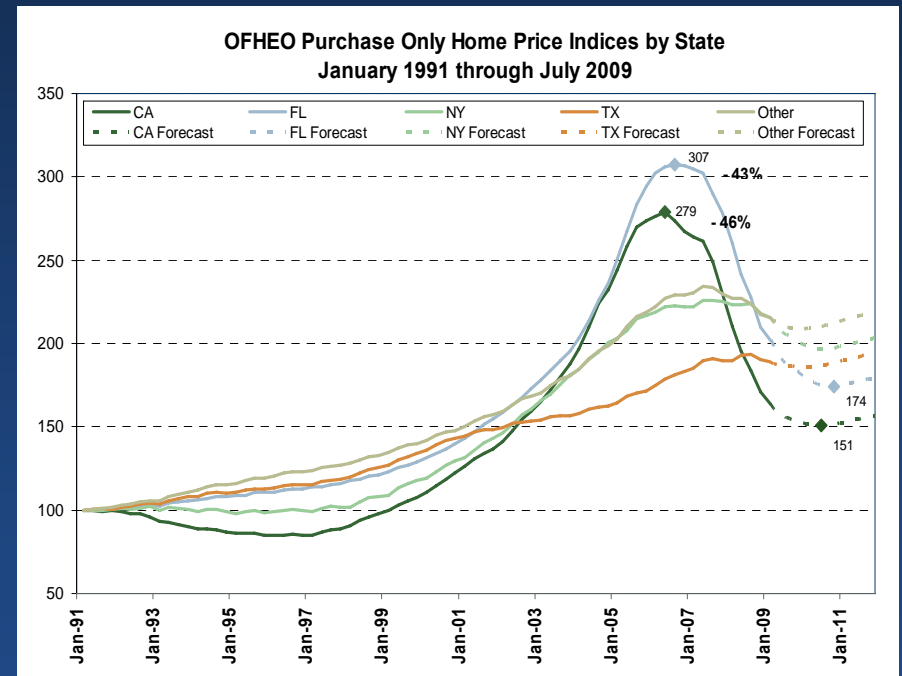
This is a current assessment of the economy. It is provided for informational purposes only and should not be considered a recommendation to buy or sell securities or a guarantee of future results. This information is drawn, in part, from sources that we deem to be reliable, but no warranty is made as to accuracy.

Housing Sector

- **Nominal national home prices now more than halfway through their decline.**
 - Housing sector contraction to be extended by record inventories of new homes, vacant existing homes, homes in foreclosure, and limited policy traction.
 - Housing slump will drag down overall growth, primarily via lower long-term wealth effect.



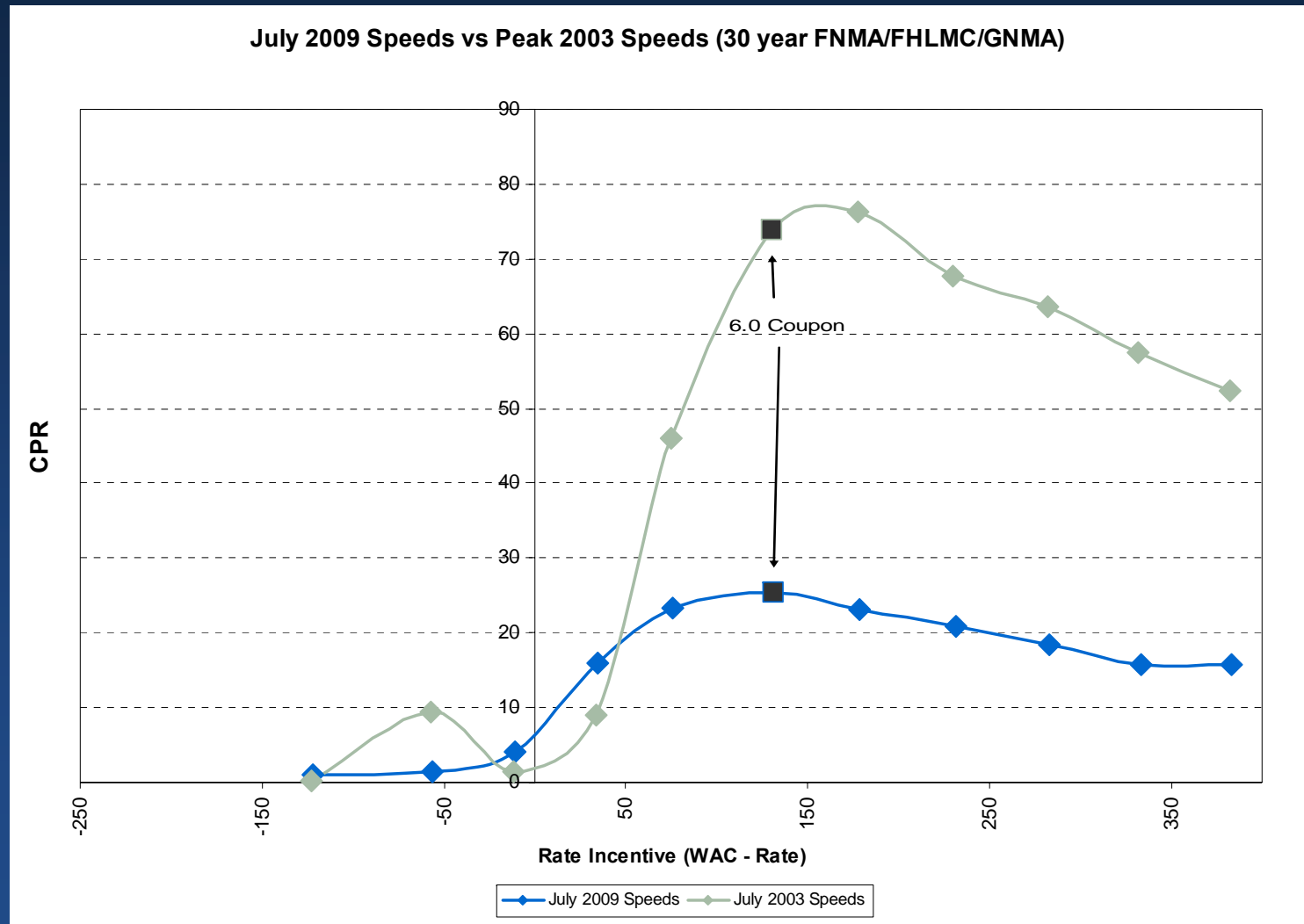
Shaded regions indicate periods of NBER Recession
 Source: U. S. Census Bureau, U.S Department of Commerce, Bureau of Labor Statistics, National Bureau of Economic Research. Forecasted data expresses the views and opinions of Smith Breeden's personnel on the current market environment as of the above listed date.



Data as of March 31, 2009. Forecast as of July 31, 2009
 Source: OFHEO Purchase Only State Indices and Smith Breeden Analytics. Quarterly data is sourced from OFHEO. "Other" series represents an equal weighted index of all remaining U. S. state OFHEO indices not including CA, FL, NY and TX. Forecasted data expresses the views and opinions of Smith Breeden's personnel on the current market environment as of the above listed date. Figures have been rounded.

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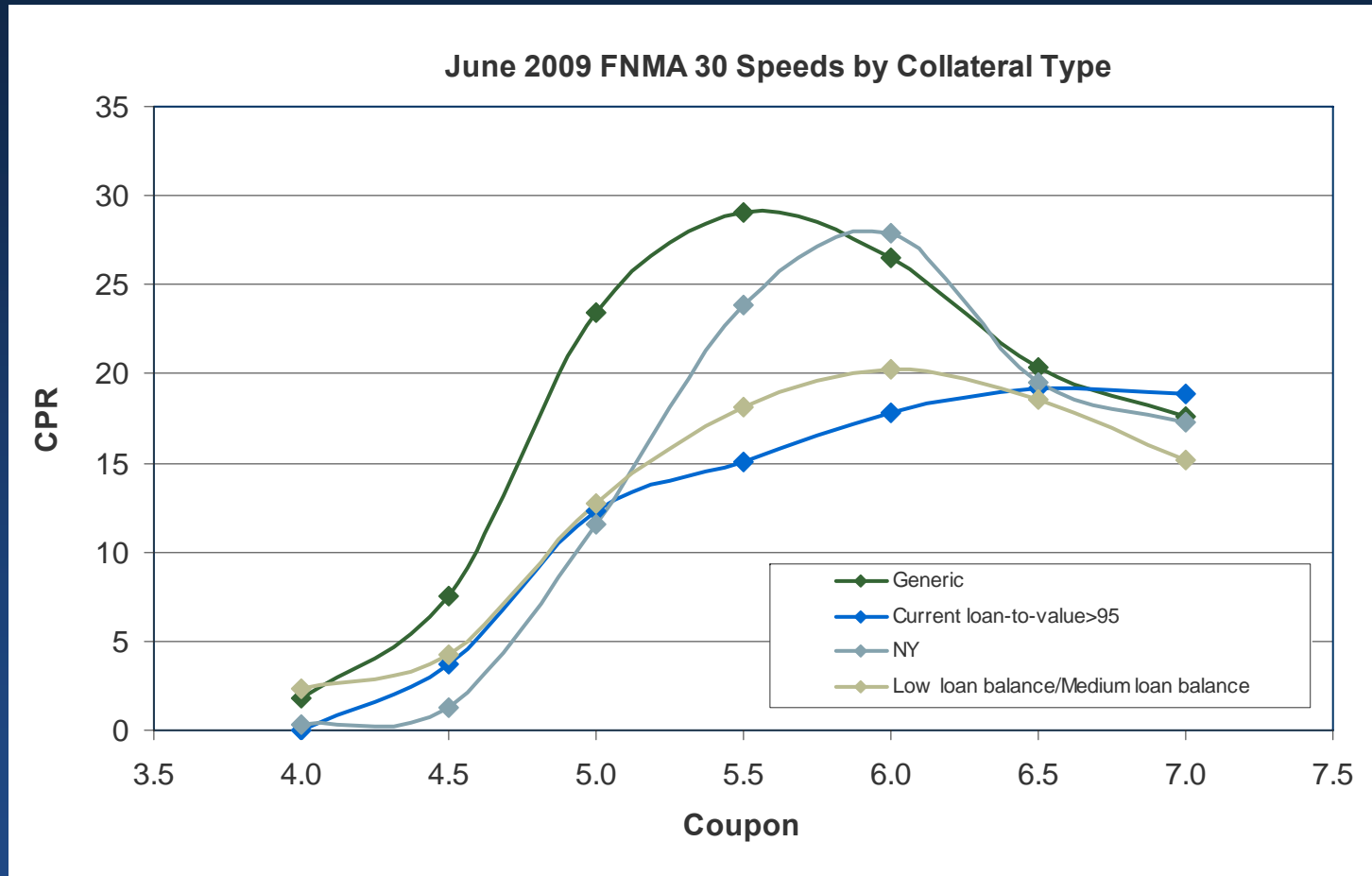
Prepayment speeds have not escalated to levels seen in 2003.



Data as of July 31, 2009

Source: eMbs, Smith Breeden Analytics. This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

Specified securities offer prepayment protection.



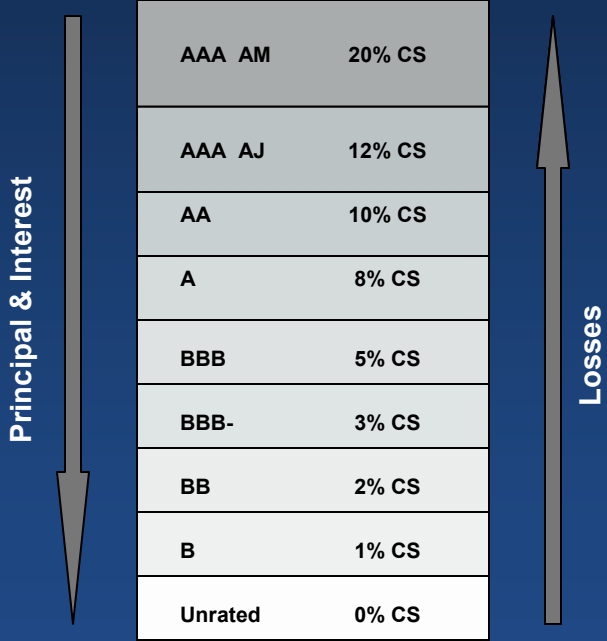
Data as of June 30, 2009

Source: eMbs. This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

U.S. Commercial Mortgage Market

Typical CMBS Deal Structure

3-Yr	5-Yr	7-Yr	7-Yr	10-Yr
AAA	AAA	AAA	AAA	AAA
30% CS	30% CS	30% CS	30% CS	30% CS

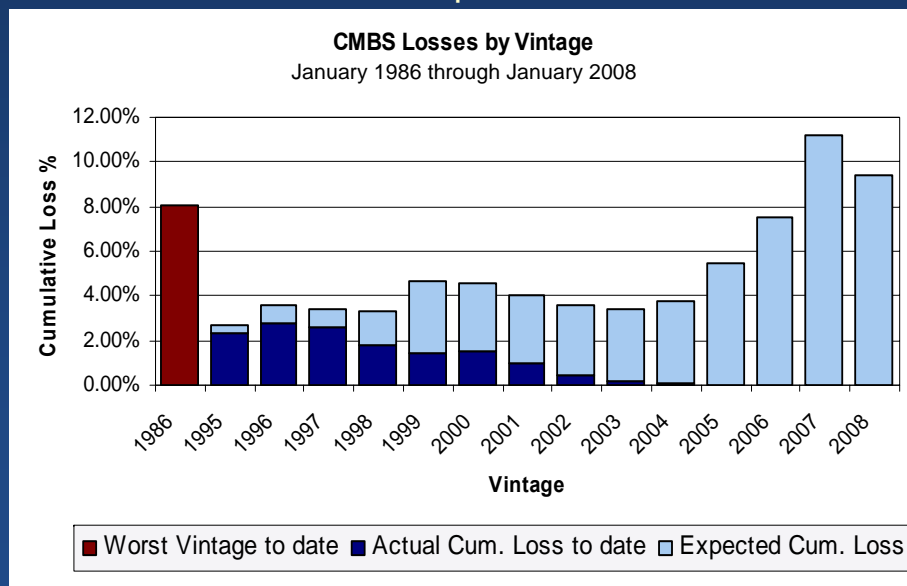


CMBS Structure

- LCF AAA CMBS structured to be comparable to 10 year bullet Corporates or Agency Debt. Spread Duration of ~7 years
- Underlying loans locked out through yield maintenance or defeasance
- Prepays are typically a function of defaults

Super senior classes remain well protected from losses

- The worst cumulative loss since 1978 for Commercial Real Estate (CRE) is 8.1% from the 1986 vintage.
- We expect losses on 2006-2008 vintage CMBS to match or exceed the 1986 level of cumulative losses due to stress from the current severe economic downturn coupled with softer underwriting standards in recent years.
- Despite deteriorating CRE fundamentals, the Aaa super senior CMBS tranche, created in 2004, has more than enough credit support of 30%.
- Given the credit support and distressed prices of CMBS super senior bonds, an investment can withstand losses up to ~6.5 times the worst historical loss before experiencing a negative return.**



	Worst Vintage Year (1986)*	Projected (2007 vintage)	Super senior Break-even**
Default Rate	31.7%	27.5%	80.0%
Loss Severity	25.6%	40.0%	50.0%
Cumulative Loss	8.1%	11.0%	50.0%

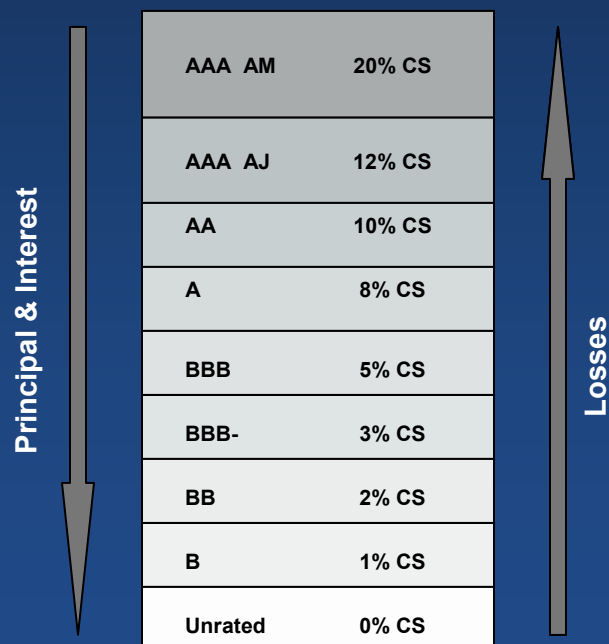
*Since 1978, first year of available data
**Assumes price of \$90.00 on a 30% credit support super senior bond

Date: May 2009

Source: Default rate and cumulative loss for Vintage Year 1986 from Morgan Stanley. Cumulative Losses by Vintage Year from 1995-2008 from Barclays. This information is taken from sources that we deem reliable but no warranty is made as to accuracy. This is Smith Breeden's current assessment of the market. It is provided for informational purposes only and should not be considered a recommendation to buy or sell securities or a guarantee of future results.

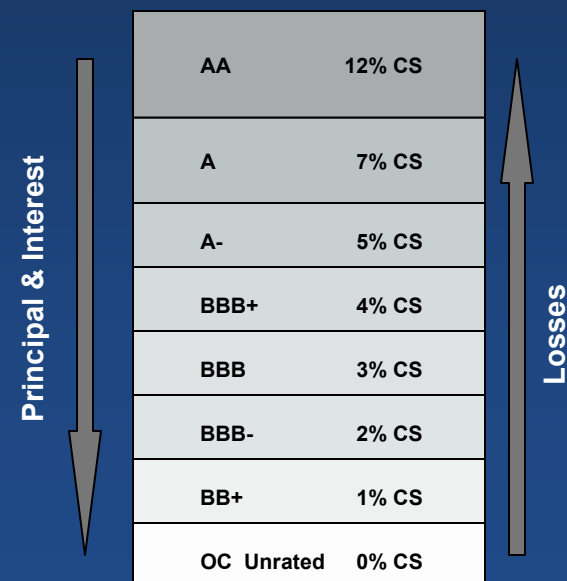
Typical CMBS Deal Structure

3-Yr AAA	5-Yr AAA	7-Yr AAA	7-Yr AAA	10-Yr AAA
30% CS	30% CS	30% CS	30% CS	30% CS

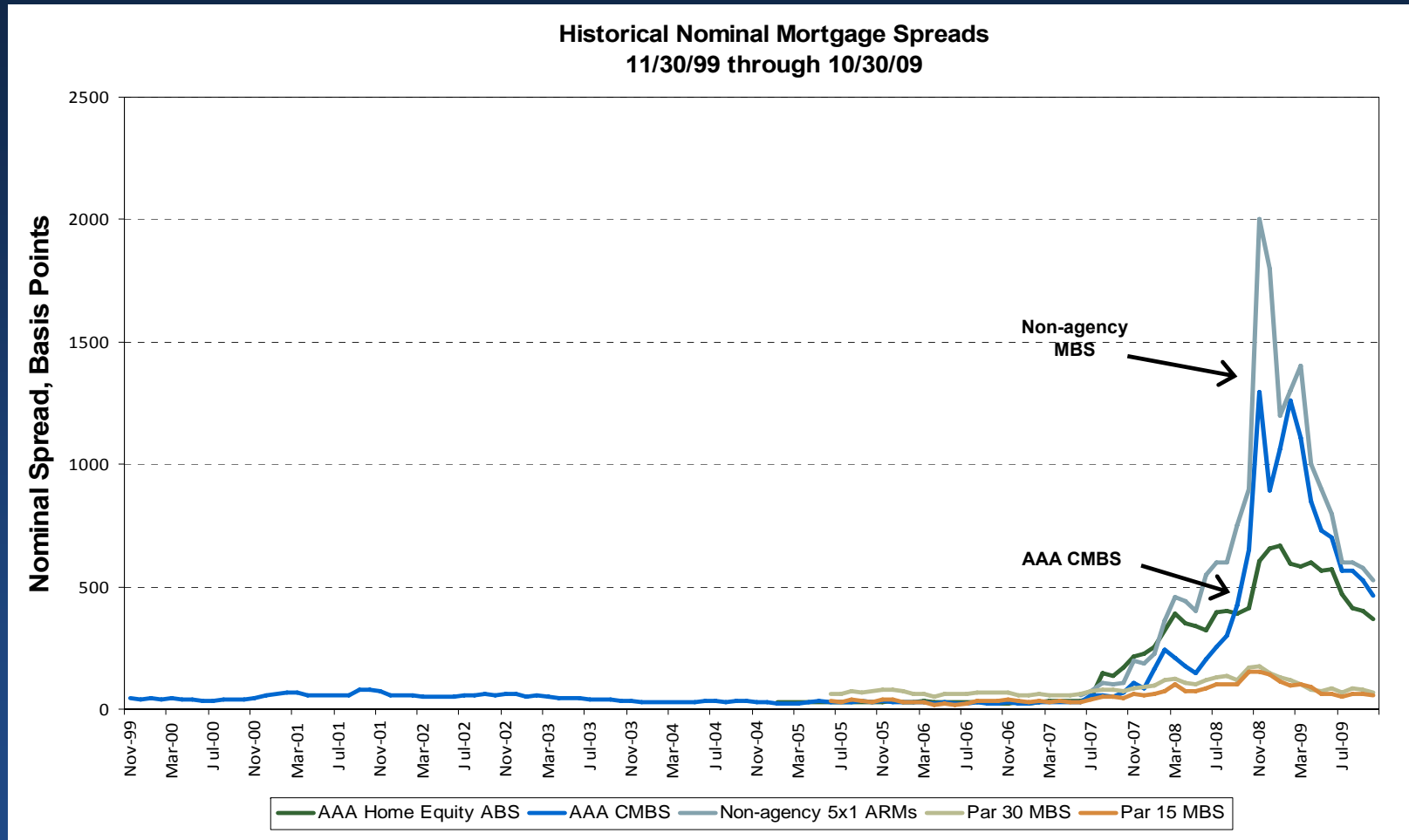


Typical HEQ ABS Deal Structure

1-Yr AAA	3-Yr AAA	LCF AAA
20% CS	20% CS	20% CS



Non-agency MBS, AAA CMBS, and AAA ABS spreads continued narrowing, given the popularity of the TALF and expanded TALF programs in the market.

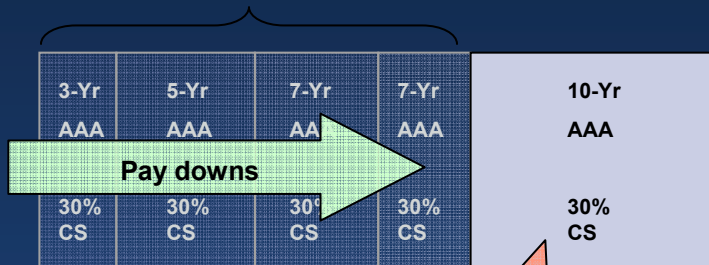


Data as of October 31, 2009.

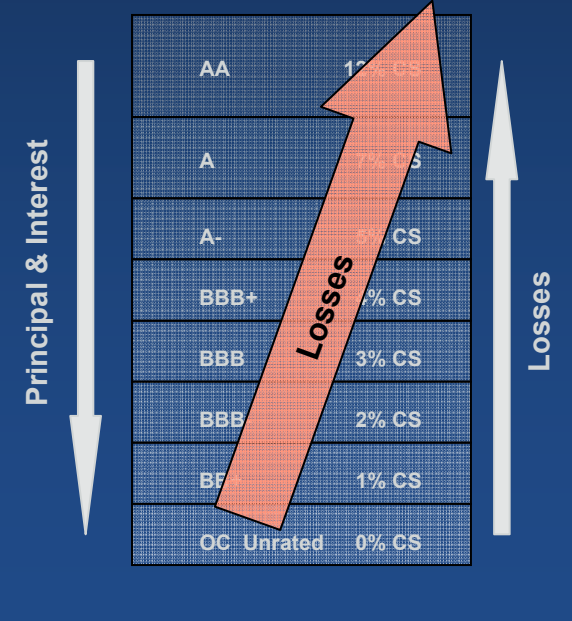
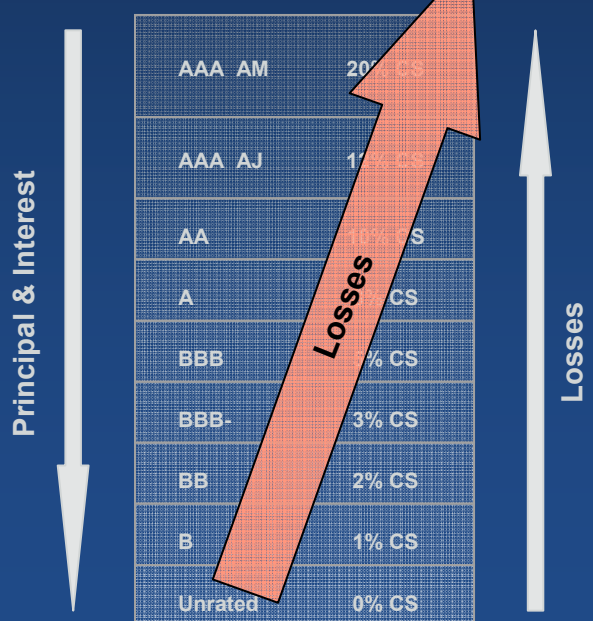
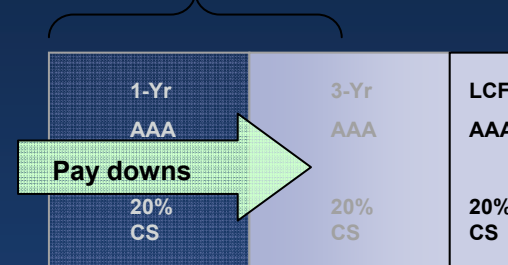
Sources: "AAA Home Equity ABS" from Merrill Lynch; "AAA CMBS" is a spliced series of the Banc of America AAA CMBS index available via Bloomberg through 6/30/2009 and the Barclays Capital AAA CMBS Super Duper 7+ series afterward; "Non-Agency 5x1 ARMs" from Smith Breeden Trading Estimates; "Par 30 MBS" and "Par 15 MBS" from Smith Breeden Analytics. This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

By the time losses reach the senior AAA tranches, nearly all of the shorter average life tranches have been paid down. The leverage of losses suffered by the last cash flow tranches are inversely related to the original size of the tranche in relation to the size of the senior AAA stack. Because the typical CMBS LCF AAA tranche is larger as a percentage of the senior AAA stack, relative to the ABS LCF AAA tranche, losses are less levered in the CMBS structure. Loss leverage in the CMBS structure averages around 1.6:1 to. The ABS structure in most cases is more levered, with loss leverage being over 5:1.

Tranches paid down through amortization, prepayments, and loss recoveries



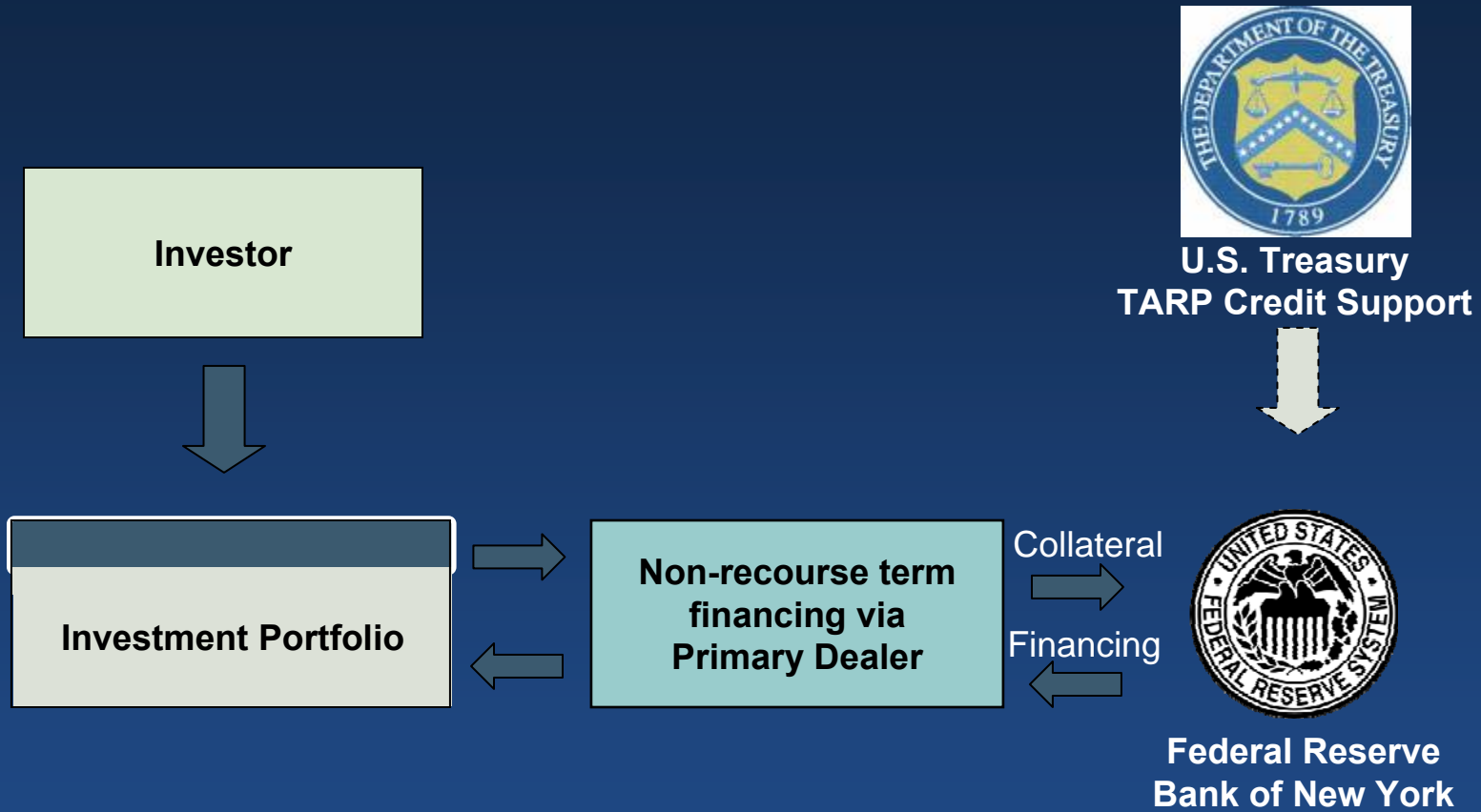
Most senior tranches paid down through amortization, prepayments, and loss recoveries



Typical CMBS Deal Structure

Typical HEQ ABS Deal Structure

TALF Program Overview



Overview of TALF 1

Summary

- To make credit available on more favorable terms by facilitating the issuance of ABS.
- The Federal Reserve Bank of New York (FRBNY) will make up to \$200 billion of loans available.
- The majority of TALF eligible issuance has been auto and credit card loans.

Timing and Termination Date

- The initial subscription date was March 19, 2009. The Federal Reserve Bank of New York (FRBNY) will cease making new loans on March 31, 2010, unless the Board of Governors extends the facility further.

Structure and Pricing

- TALF loans will have a term of three years, will be non-recourse to the eligible investor (provided certain requirements are met), and will be secured by eligible collateral.
- TALF loans will not be subject to mark-to-market or re-margining requirements, will be pre-payable and transferable, and any remittance of principal on the ABS will be used to pay down the principal of the TALF loan and the haircut on a pro-rata basis.
- Each month, borrowers will be able to request loans with a minimum size of \$10 million per loan (no maximum).
- Margin requirements (haircuts) will vary across asset classes and securities' expected lives.

Date: August 19, 2009

Source: Federal Reserve Bank of New York. www.newyorkfed.org/markets/talf_terms.html. This information is taken from sources that we deem reliable but no warranty is made as to accuracy. This is Smith Breeden's current assessment of the market. It is provided for informational purposes only and should not be considered a recommendation to buy or sell securities or a guarantee of future results.

All information in this presentation is based on information available on August 19, 2009. The terms and conditions of the TALF program may change.

TALF 1 - Eligible Collateral

Characteristics

- Eligible collateral will include U.S. dollar-denominated ABS issues.
- Must have the highest long-term or short-term credit rating from at least two major nationally recognized statistical rating organizations (NRSROs). ABS rated in the highest investment grade category must not be on review or watch for downgrade.
- Eligible auto loan, floorplan loan and credit card ABS must have an expected life of no more than five years.

Auto

- Retail loans and leases relating to, among others, cars, light trucks, motorcycles and RVs.
- All (or substantially all) of the underlying credit exposure must have originated on or after October 1, 2007.

Small Business

- Loans, debentures, or pools originated under the Small Business Administration's 7(a) and 504 programs
- Must have originated on or after January 1, 2008 regardless of the dates of the underlying loans or debentures.

Student Loan

- Federally guaranteed and private student loans
- All (or substantially all) of the credit exposure must have a first disbursement date on or after May 1, 2007.

Floorplan

- Eligible floorplan ABS must be issued to refinance existing ABS maturing in 2009 in amounts not exceeding the amount of the maturing ABS.

Credit Card

- Credit card receivables include both consumer and corporate card receivables.
- Eligible credit card ABS must be issued to refinance existing ABS maturing in 2009 in amounts not exceeding the amount of the maturing ABS.

Date: September 30, 2009

Source: Federal Reserve Bank of New York. www.newyorkfed.org/markets/talf_terms.html. This information is taken from sources that we deem reliable but no warranty is made as to accuracy.

Overview of Expanded TALF

Summary

- To make credit available on more favorable terms by facilitating the issuance of CMBS and funding of legacy CMBS positions.
- The Federal Reserve Bank of New York (FRBNY) will make up to \$200 billion of loans available.
- All loans to date have been for legacy CMBS.

Timing and Termination Date

- The initial subscription date was July 16, 2009. The FRBNY will cease making new loans on Legacy CMBS on March 31, 2010 and will cease making loans for new CMBS on June 30, 2010. The Board of Governors may elect to extend the facility further.

Structure and Pricing

- TALF loans will have a term of three or five years, will be non-recourse to the eligible investor (provided certain requirements are met), and will be secured by eligible collateral.
- Eligible legacy CMBS must have been issued before January 1, 2009, have a current rating of AAA by at least 2 rating agencies with no rating below AAA or on downgrade watch or review, and be the senior most security in the deal. New issue CMBS deals have the same requirements except they must be issued after January 1, 2009.

Date: August 19, 2009

Source: Federal Reserve Bank of New York. www.newyorkfed.org/markets/talf_terms.html. This information is taken from sources that we deem reliable but no warranty is made as to accuracy. This is Smith Breeden's current assessment of the market. It is provided for informational purposes only and should not be considered a recommendation to buy or sell securities or a guarantee of future results.

All information in this presentation is based on information available on August 19, 2009. The terms and conditions of the TALF program may change.

Expanded TALF - Eligible Collateral

Characteristics

- TALF 1 securities plus new and “legacy” commercial mortgage-backed securities (CMBS) and potentially residential mortgage-backed securities (RMBS).
- Credit quality must be Aaa/AAA for consumer ABS and CMBS and is expected to range from Aaa/AAA to below investment grade for RMBS.
- Weighted average life expected to be between three and five years with three and five-year loans.

New Issue CMBS

- Included in the July TALF auction
- All securities must have been issued on or after January 1, 2009

Legacy CMBS

- Included in the July TALF auction.
- All securities must have been issued before January 1, 2009

RMBS

- Have not been included in a TALF auction to date.
- Unclear how securities will be selected for TALF eligibility.

Date: September 30, 2009

Smith Breeden cannot guarantee the success of the investment strategy. Past results are not necessarily indicative of future performance. No assurance can be made that profits will be achieved or that substantial losses will not be incurred. All investments involve risk including the loss of principal. This is Smith Breeden's current assessment of the market. It is provided for informational purposes only and should not be considered a recommendation to buy or sell securities or a guarantee of future results.

Overview of Expanded TALF

Structure and Pricing (continued)

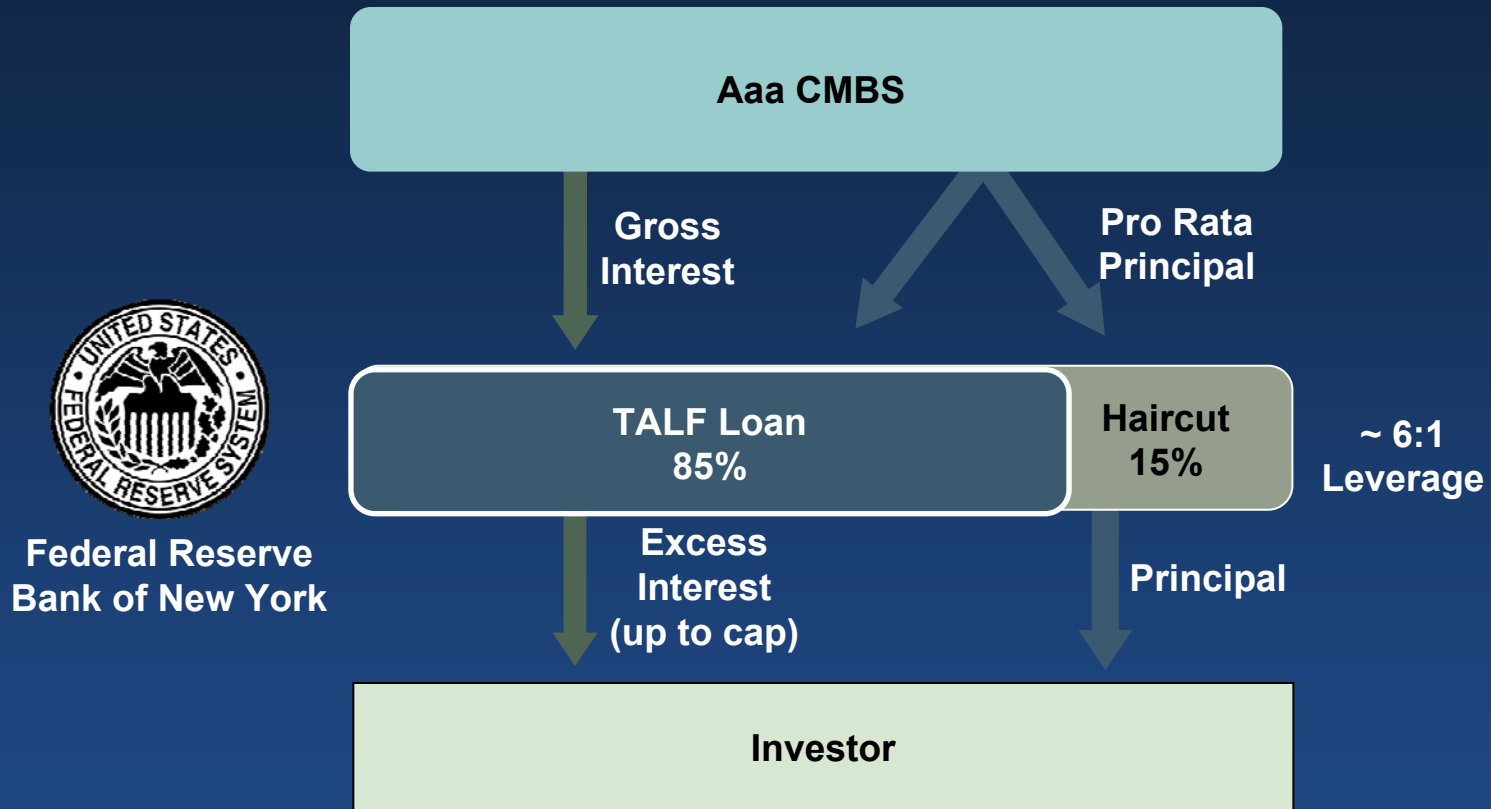
- TALF loans will not be subject to mark-to-market or re-margining requirements, will be pre-payable and transferable, and any remittance of principal on the CMBS will be used to pay down the principal of the TALF loan and the haircut on a pro-rata basis.
- Each month, borrowers will be able to request loans with a minimum size of \$10 million per loan (no maximum).
- Margin requirements (haircuts) will be 15% of par for securities with a weighted average life (WAL) of 5 years or less. For longer WAL securities the haircut increases 1% for each year over five.
- The excess interest passed on to the investor is capped. Three year loans are capped at 30% each year, and five year annual caps are 25%, 25%, 25%, 15%, and 10%. Any excess interest exceeding the cap is used to pay down principal on the TALF loan.
- For legacy CMBS loans, the FRBNY reserves the right to reject the loan based on their risk assessment.
- Legacy CMBS trades must settle on or before the subscription date. However, the funding will not occur until the loan funding date. Therefore, interim financing must be arranged for approximately 1 week.
- The loans for legacy CMBS will be based on the lower of the trade price or the market price on the subscription date as determined by the FRBNY.

Date: August 19, 2009

Source: Federal Reserve Bank of New York. www.newyorkfed.org/markets/talf_terms.html. This information is taken from sources that we deem reliable but no warranty is made as to accuracy. This is Smith Breeden's current assessment of the market. It is provided for informational purposes only and should not be considered a recommendation to buy or sell securities or a guarantee of future results.

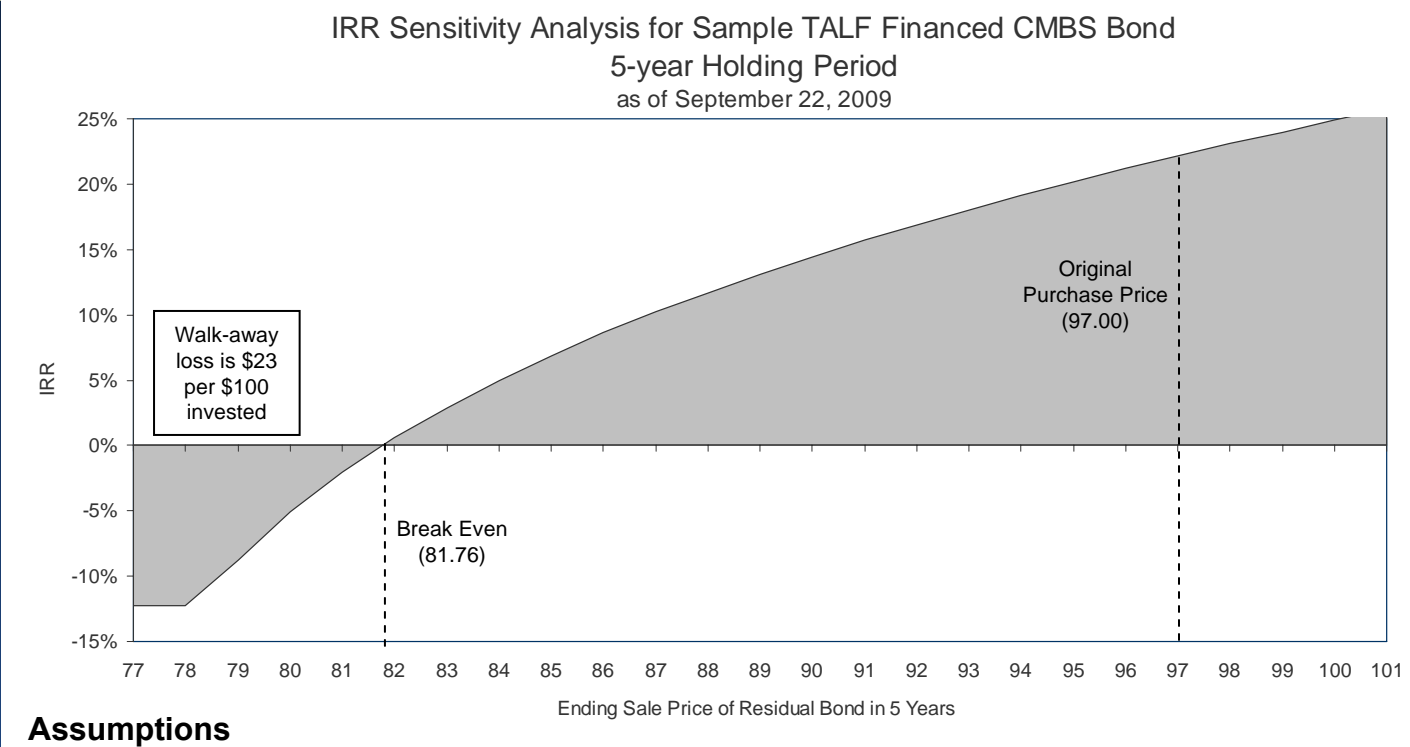
All information in this presentation is based on information available on August 19, 2009. The terms and conditions of the TALF program may change.

Expanded TALF Loans – Cash Flows



The haircut is based on 18% of par for a Super-senior CMBS bond priced at \$97.00 with a WAL of 4.8 years. All information is provided for informational purposes only and should not be deemed as a recommendation to buy or sell securities. Smith Breeden cannot guarantee the success of the investment strategy. Past results are not necessarily indicative of future performance. No assurance can be made that profits will be achieved or that substantial losses will not be incurred. All investments involve risk including the loss of principal.

CMBS Bond Sensitivity Example



Assumptions

Date	9/22/2009
5-year Swap	2.68%
Financing spread	1.00%
Bond Coupon	6.1%
WAL	4.8 years
Haircut on Face	15%
Haircut on MV	15%
Equity	1,500,000
Loan	8,200,000
Purchase Price	97.00

- Downside risk is truncated by the non-recourse nature of the TALF Loan.
- Likely conditions for upside outcome: financing markets and economy heal and resume more normal functioning by the time the TALF Loan matures.
- Likely conditions for downside outcome: financing markets remain non-functional, commercial real estate market does not stabilize.

In the example the analysis assumes the following scenarios in which the investor would: a) walk away (less than \$78.21), b) sell at breakeven (\$81.76), c) sell at the purchase price (\$97.00), or d) sell at par.

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AAA-rated CMBS prices remained above \$90 as the expanded TALF program has boosted investor demand.

