

FMS Seminar

Coping with New Investment Guidelines

Presentation by Robert Pratt, rpratt2@bloomberg.net 212-617-4061









Additional contact Scott Winans , swinans@bloomberg.net 212-617-6416

QRM

Qualified Residential Mortgage

- • Documentation and verification of financial resources relied upon to qualify the mortgagor;
- • Standards with respect to:
 - – Residual income of the mortgagor after all monthly obligations;
 - – The ratio of the housing payments of the mortgagor to the monthly income of the mortgagor;
 - – The ratio of total monthly installment payments of the mortgagor to the income of the mortgagor;
- • Mitigation of the potential for payment shock on adjustable rate mortgages through product features and underwriting standards;
- • Mortgage guarantee insurance or other types of insurance or credit enhancement obtained at the time of origination, to the extent such insurance or credit enhancement reduces the risk of default; and
- • The prohibition or restriction of the use of balloon payments, negative amortization, prepayment penalties, interest-only payments and other features that have been demonstrated to exhibit a higher risk of borrower default.
- Loan issuance is low ***but deposits continue to grow forcing banks to make sound investments in a low-interest environment.***

What the OCC and FDIC are Expecting in Terms of Due-Diligence as it Pertains to Investing.

Key factors	Corporate bonds	municipal government general obligations	Revenue bonds	Structured securities
 Confirm spread to U.S. Treasuries is consistent with bonds of similar credit quality	X	X	X	X
 Confirm risk of default is low and consistent with bonds of similar credit quality	X	X	X	X
 Confirm capacity to pay and assess operating and financial performance levels and trends through internal credit analysis and/or other third party analytics, as appropriate for the particular security	X	X	X	X
 Evaluate the soundness of a municipal's budgetary position and stability of its tax revenues. Consider debt profile and level of unfunded liabilities, diversity of revenue sources, taxing authority, and management experience .....	.....	X	.....	.....
 Understand local demographics/economics. Consider unemployment data, local employers, income indices, and home values .....	.....	X	X	.....
 Assess the source and strength of revenue structure for municipal authorities. Consider obligor's financial condition and reserve levels, annual debt service and debt coverage ratio, credit enhancement, legal covenants, and nature of project .....	.....	.....	X	.....
 Understand the class or tranche and its relative position in the securitization structure .....	.....	.....	.....	X
 Assess the position in the cash flow waterfall .....	.....	.....	.....	X

MBS Securities

- -Low treasury rates are enabling refinancing opportunities for those that can
- -Those that are unable to refinance go into foreclosure
- -The agencies are forced to pay off bond investors
- -Both of these factors result in higher prepay speeds

MBS Securities

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Understand the class or tranche and its relative position in the securitization structure				X
Assess the position in the cash flow waterfall				X

Is a bond going to shorten or extend too much to be in a bank portfolio?

How is the current economic and interest rate environment going to affect MBS?

Despite an Improving Economy, Rates are Even Lower than Last Year.



Foreign Central Banks Continue to Purchase US Debt.

Fed has Repeatedly said They Will Keep Rates Low

This Results in Low Mortgage Rates Enticing Borrowers to Refinance

Those that Can't Refinance Face Foreclosure as ARM loans Reset

This Results in Higher CPR Speeds

Investments in Agency Backed MBS Requires High Scrutiny



Foreclosure Rate is Still High

- This Chart represents the Mortgage Bankers Association Foreclosure/Pct of Total Loans



All subprime loans are at 20 % delinquency rate

- According to the MBA, Subprime delinquencies are falling although still high compared to pre-crisis levels.



Fannie Mae 30 Year Collateral CPR

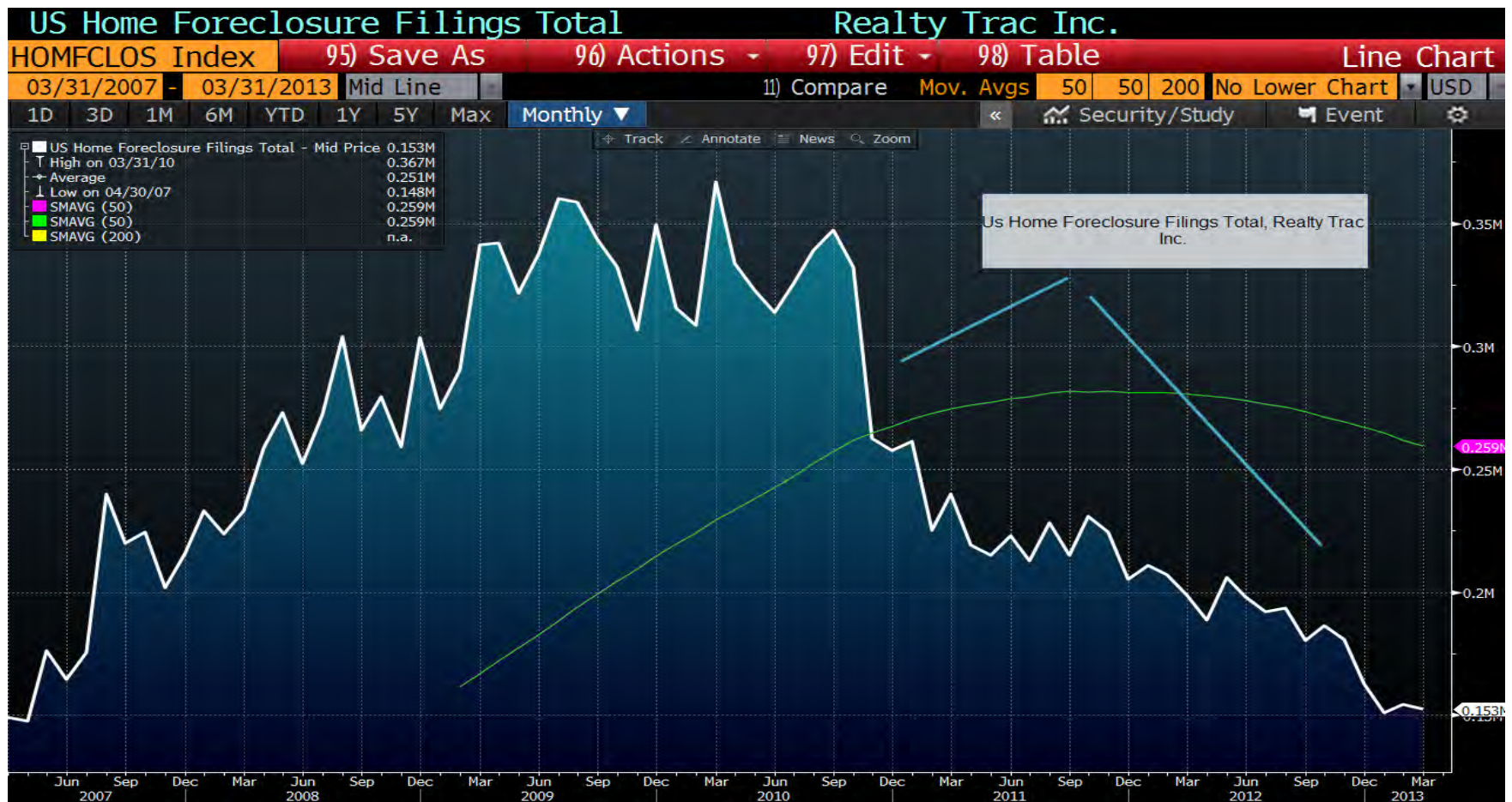
Coupon	Orig. Year	WAC	WAM	Age	# of Pools	Factor	Amounts in \$ Billions				Mar 2013							Historical CPR New FN Disclosures			
							Cur. Bal	Mar 2013	Amt. in CMO	Float	1mo % CPR Chg.	1mo PSA	1mo CPR	3mo CPR	6mo CPR	12mo CPR	Life CPR	Feb	Jan	Dec	Nov
3.50	2013	4.01	355	2	1619	0.996	20.511	7.996	0.458	20.054	19.2	309	1.3	1.4	-	-	0.9	1.1	0.5	-	-
	2012	4.01	346	10	9769	0.882	205.358	0.277	6.450	198.908	-13.7	587	11.8	14.4	17.1	17.7	11.1	13.7	17.6	18.0	18.7
	2011	4.02	338	18	1274	0.703	35.408	0.082	0.720	34.688	-22.7	527	19.1	25.1	29.7	26.2	20.6	24.7	30.9	34.4	35.9
	2010	4.12	324	29	660	0.644	14.989	0.000	0.917	14.072	-9.4	412	23.9	27.0	30.2	26.1	15.3	26.3	30.6	35.2	33.4
	2009	4.01	303	46	130	0.682	0.863	0.000	0.003	0.860	-1.4	350	21.0	22.2	22.8	18.7	8.0	21.3	24.4	25.8	23.1
	2008	4.02	298	55	24	0.681	0.056	0.000	0.000	0.056	52.1	536	32.2	27.1	21.2	16.0	7.3	21.2	27.4	12.1	17.8
	2004	4.11	244	107	7	0.575	0.041	0.000	0.000	0.041	35.4	283	17.0	20.9	24.2	19.5	10.4	12.5	25.1	28.3	24.5
	ALL	4.02	345	12	13504	0.844	277.243	8.355	8.548	268.695	-17.5	542	12.8	16.5	20.2	21.6	12.2	15.5	20.2	21.7	22.6
4.00	2013	4.45	353	2	479	0.995	2.653	0.823	0.126	2.527	127.6	434	1.9	0.8	-	-	1.3	0.8	0.7	-	-
	2012	4.47	344	11	6111	0.886	66.259	0.014	12.051	54.208	4.1	582	13.3	13.5	14.3	14.0	9.9	12.8	14.5	14.7	14.0
	2011	4.47	335	21	4146	0.689	81.068	0.011	4.383	76.685	-3.0	602	25.0	27.1	28.3	24.4	19.1	25.8	30.5	30.8	28.9
	2010	4.49	324	30	3194	0.570	71.920	0.006	3.772	68.148	-2.3	505	29.6	31.3	33.1	29.2	19.2	30.3	33.8	35.9	34.4
	2009	4.56	305	46	1848	0.418	49.701	0.000	0.968	48.733	-3.7	658	39.5	41.2	42.2	38.5	19.7	41.0	42.9	44.4	41.9
	2008	4.60	289	58	36	0.444	0.302	0.000	0.001	0.301	-17.7	497	29.8	36.5	38.7	35.0	19.3	36.2	42.8	36.8	42.9
	2007	4.92	279	71	15	0.370	0.123	0.000	0.000	0.123	4.1	497	29.8	30.1	33.0	32.5	21.8	28.7	32.1	35.7	32.2
	2006	4.81	271	80	16	0.434	0.109	0.000	0.000	0.109	69.9	891	53.5	40.5	38.1	34.2	20.5	31.5	34.1	30.3	38.8
	2005	4.80	255	96	23	0.451	0.173	0.000	0.079	0.093	-10.9	651	39.0	37.6	33.8	28.4	13.2	43.8	29.0	33.3	31.4
	2004	4.83	243	106	40	0.368	0.100	0.000	0.002	0.098	9.5	588	33.9	31.9	33.9	34.9	20.9	31.0	31.1	37.1	46.1
	2003	4.77	230	116	117	0.326	0.240	0.000	0.032	0.208	27.7	959	38.2	31.5	31.2	29.4	12.5	26.0	38.2	28.9	33.4

Prepay speeds continue to be fast, even for collateral issued in 2012.

Even relatively low coupon collateral continues to see high prepay speeds.
What is this due to ?

There is a Silver Lining

- According to Realty Trac Inc. , home foreclosure filings are starting to fall. This may also be a reflection of fewer loans being originated.



Pre-trade Analysis

- Collateral Composition
- Historic Prepays on the Bond
- How to prepays affect the cash flows of this bond ?
- Where should this bond trade ?
- Is it too volatile for my portfolio ?

There are bonds that have lower prepay speeds.

- Always ask for bonds with a low prepay history.

FNR 2011-137 PB													102-22 ¹ / ₄ /102-24		Yield 1.436/1.417		BVAL			
As of 12 Apr Collateral													100.0% FNCL		5%		Prepay 415PSA		WAL 2.75	
FNR 2011-137 PB Mtge													99) Feedback		Security Description					
CUSIP 3136A3GH8													5.363(327)26		FNCL 5 N		95) Buy		96) Sell	
1) Bond Summary			2) Group Summary			3) Deal Summary			4) Comments											
Issuer FANNIE MAE													5) Prospectus							
Series 2011-137 Class PB													Maturity 11/25/2039		ISIN US3136A3GH89		6) Lead Mgr BCG			
7) Class Descripti... PAC(11)													BBGID BBG002CR30D4		8) Trustee FNM					
Current (Apr 2013)				Original Issue				Payment Details				Additional Info								
Balance		37,059,319		Balance USD		42,352,000		Next Pay		04/25/2013		TRACE Eligible								
Factor		0.875031150		WAL		5.0Yr @ 175PSA		Rcd Date		03/31/2013										
Coupon		2.50%		1st Coupon		2.50%		Pay Date		25th										
Beg Accrue		03/01/2013		1st Payment		01/25/2012		Frequency		Monthly										
End Accrue		03/31/2013		1st Settle		12/30/2011		Pay Delay		24 Days										
Class/Grp Pct		29%		Dated Date		12/01/2011		Day Count		30/360										
[188 217 Mar2013]				PX		12/01/2011		Call		Non-Callable		FFIEC Pass								
				Class/Grp Pct		28%						Min Size 1,000								
				Collateral		[120 250]						Incr 1								
9) Historical Paydown (CPD)													PSA		CPR					
	Apr13	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May12	1m	261	12.6					
PSA	261	336	295	266	261	350	182	265	349	304	213	366	3m	297	14.0					
CPR	12.6	15.8	13.5	11.8	11.3	14.7	7.3	10.3	13.0	10.8	7.1	11.7	6m	294	13.3					
Fct	0.88	0.88	0.89	0.90	0.91	0.92	0.93	0.94	0.95	0.95	0.96	0.97	12m	287	11.7					
Cpn	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	Life	289	10.8					

Understanding What Backs the Collateral Can Help Avoid high prepay speeds going forward.

- Make sure that you are looking at bonds where loans are in states with stabilized housing markets.

FNR 2011-137 PB Mtge		99) Feedback		Collateral Composition		
CUSIP 3136A3GH8 5.363(327)26		FNCL 5 N		95) Buy	96) Sell	
Composition		Overview		Group 3: 30YR/5.0/FNMA/G3		
1) Overview		Apr '13	Dec '11			
2) Addl Info	Geographics	(04/13)	(12/11)	Product Type	Apr '13	Dec '11
3) Servicers	CA	14.2	14.3	FNCL	100.0	100.0
4) Sellers	TX	9.4	9.1	Loans that come from erratic housing markets may be sold off resulting in higher prepay speeds.		
5) Pools	FL	5.2	4.9	Origination Year		
Distribution		MI	4.5	2011	52.6	49.5
6) LTV	IL	4.2	4.3	2010	42.5	44.7
7) GEO	Other	62.5	62.8	2009	4.9	5.8
8) FICO	Collateral Count			Amortization Type		
9) WAC	Pools	54	54	Level FRM	100.00	100.00
10) WAM	Amortization Term			ARM	0.00	0.00
11) WALA	30 Year	100.0	100.0	Non-Level FRM	0.00	0.00
	Balloon	0.0	0.0	Loan Size (\$M)		
	15 Year	0.0	0.0	WA Orig	123.8 (100.0%)	Orig Min/Max
	Quartiles (Current)			WA Curr	118.4 (100.0%)	20.0/150.0
	WAM 302 - 317	WAC 5.25 - 5.32		Avg Orig	120.7 (100.0%)	
	317 - 328	5.32 - 5.36		Avg Curr	115.8 (100.0%)	
	328 - 337	5.36 - 5.42		(Avg. AOLS 120.6)		
	337 - 342	5.42 - 5.67				

Using Pre-Pay Models and Historical Speeds to Measure Performance

FNR 2011-137 PB Mtge										Yield Table					
FNCL 5.0 N		5.363(327)26		3136A3GH8		90 Buy		91 Sell		96 Settings					
4/13	12.6C	261P	-	Descr	PAC(11)	Cpn	2.50000	Next Pay	5/25/13	Maturity	11/25/39				
3Mo	14.0	297	-	12/30/2011	42,35	Running Prepay Models and Historical Prepay Speeds to project future LTV cashflows.		Dt	4/30/13	Created	4/10/13				
6Mo	13.3	294	-	04/25/2013	37,05	9.319	LTV	Accrual	4/1-4/30	1st Proj	4/25/13				
12Mo	11.7	287	-	Factor	0.87503	1150	WAOLS	123		# Pools	54				
Life	10.8	289	-	Collar	[188-217 Mar'13]	Parity Px	99.833								
Settle 04/18/2013		Table		Yield (YT)		Call N									
Median	1) +300	2) 21.7C Eqv		3) 29.3C Eqv		4) Custom		5) -100		6) -200		7) -300			
Vary	0	112 PSA		0 BPM		0 DPM		14.0 CPR		612 PSA		663 PSA		695 PSA	
	102-24	1.8856		1.6954		1.6504		1.7908		0.9031		0.7605		0.6688	
Avg Life		5.01		3.76		3.54		4.30		1.84		1.69		1.60	
Mod Dur		4.62		3.55		3.36		4.02		1.80		1.66		1.57	
D Win		5/13-9/24		5/13-1/22		5/13-10/20		5/13-6/23		5/13-5/17		5/13-12/16		5/13-10/16	
Sprd I		119 /AL		123 /AL		122 /AL		122 /AL		69 /AL		57 /AL		49 /AL	

Investing in the Municipal Bond Market

Key factors	Corporate bonds	municipal government general obligations	Revenue bonds	Structured securities
Confirm spread to U.S. Treasuries is consistent with bonds of similar credit quality	X	X	X	X
Confirm risk of default is low and consistent with bonds of similar credit quality	X	X	X	X
Confirm capacity to pay and assess operating and financial performance levels and trends through internal credit analysis and/or other third party analytics, as appropriate for the particular security	X	X	X	X
Evaluate the soundness of a municipal's budgetary position and stability of its tax revenues. Consider debt profile and level of unfunded liabilities, diversity of revenue sources, taxing authority, and management experience		X		
Understand local demographics/economics. Consider unemployment data, local employers, income indices, and home values		X	X	
Assess the source and strength of revenue structure for municipal authorities. Consider obligor's financial condition and reserve levels, annual debt service and debt coverage ratio, credit enhancement, legal covenants, and nature of project			X	
Understand the class or tranche and its relative position in the securitization structure				X
Assess the position in the cash flow waterfall				X

Financial Analysis of the Issuer

"A-1"

TOWNSHIP OF BRIDGEWATER
CURRENT FUND
STATEMENTS OF OPERATIONS AND
CHANGES IN FUND BALANCE - REGULATORY BASIS

	REF.	YEAR ENDED DECEMBER 31, 2011	YEAR ENDED DECEMBER 31, 2010
REVENUE AND OTHER INCOME REALIZED			
Fund Balance Utilized	A-1 :A-2	\$ 3,116,859.31	\$ 3,584,732.98
Miscellaneous Revenue Anticipated	A-2	13,566,701.87	14,499,963.24
Receipts From Delinquent Taxes	A-2	1,157,959.74	1,554,249.75
Receipts From Current Taxes	A-2	163,523,102.75	161,788,216.45
Non-Budget Revenue	A-2	410,006.72	323,134.17
Other Credits to Income:			
Unexpended Balance of Appropriation Reserves	A-14	600,364.07	525,061.81
Grants Appropriated Canceled	A-23	128,251.55	87,074.00
Accounts Payable Canceled	A-11	54,219.59	25,846.65
Reserves Canceled		907.78	1,942.19
Accounts Receivable		1,500.00	
TOTAL REVENUE AND OTHER INCOME		\$ 182,559,873.38	\$ 182,390,221.24
EXPENDITURES			
Budget Appropriations	A-3	\$ 36,019,862.98	\$ 36,045,498.97
Special Fire District Taxes	A-22	2,199,096.00	2,167,745.00
County Taxes	A-20	32,798,260.70	34,764,775.45
Regional School District Taxes	A-21	109,277,842.74	106,302,430.34
Municipal Open Space Taxes			314.58
Grants Receivable Canceled	A-25	129,743.86	87,074.00
Interfunds Advanced		2,998.33	31,263.23
Prepaid Fire District			1,500.00
Refund of Prior Year Revenue	A-4	9,562.82	12,418.53
TOTAL EXPENDITURES		\$ 180,437,367.43	\$ 179,413,020.10
Excess in Revenue		\$ 2,122,505.95	\$ 2,977,201.14

Financial Statements provide intelligence on credit risk

Financial Analysis Within a State.

Bloomberg

Muni Issuer Screening

Download Limited To 100 Tickers

Selected Screening Criteria

Sector = GO and Fund Type = General and State = New Jersey

Financial Analysis by county, town, city. Do a comparable analysis.

Name	Ticker	Type	Current Fiscal Year	Tot GF Rev	Net Chg Fd Bal	Tot Assets	GF Tot Liab	Total Operat Expend
State of New Jersey	STONJ1 US Equity	GEN	2012	30321.62	-860.73	5105.11	2204.38	32665
City of Newark NJ	9982MF US Equity	GEN	2010	879.53	25.76	550.26	115.32	853
County of Essex NJ	10176MF US Equity	GEN	2011	777.92	4.28	157.34	10.40	773
City of Jersey City NJ	9610MF US Equity	GEN	2011	709.07	12.59	97.54	29.61	709
County of Monmouth NJ	10216MF US Equity	GEN	2011	564.48	36.48	199.86	39.58	528
County of Bergen NJ	13773MF US Equity	GEN	2011	519.82	19.87	110.76	24.89	499
County of Hudson NJ	9432MF US Equity	GEN	2011	513.68	27.58	120.67	15.55	486
County of Union NJ	14112MF US Equity	GEN	2011	510.70	14.19	97.34	71.86	496
County of Passaic NJ	10232MF US Equity	GEN	2011	455.15	18.92	97.66	16.90	441
County of Middlesex NJ	9433MF US Equity	GEN	2011	429.76	6.69	116.34	1.57	423
City of Atlantic City NJ	12855MF US Equity	GEN	2011	424.95	0.24	97.99	19.01	424
County of Camden NJ	10157MF US Equity	GEN	2011	386.89	10.32	169.94	46.99	376
County of Ocean NJ	10226MF US Equity	GEN	2011	383.68	17.67	98.38	4.55	366
Township of Edison NJ	14340MF US Equity	GEN	2011	373.18	8.39	38.73	5.65	370
County of Morris NJ	9434MF US Equity	GEN	2011	357.53	22.19	116.84	10.55	335
Township of Woodbridge NJ	9636MF US Equity	GEN	2012	343.06	6.30	25.39	5.55	336
County of Mercer NJ	13991MF US Equity	GEN	2011	326.69	11.53	97.13	10.64	315
City of Paterson NJ	10011MF US Equity	GEN	2011	324.74	0.00	50.54	20.98	330
Township of Cherry Hill NJ	10361MF US Equity	GEN	2012	309.82	8.90	21.31	2.38	300
City of Elizabeth NJ	9608MF US Equity	GEN	2011	309.56	19.69	96.47	21.77	289

Demographics

95) Filter Regions		96) Detailed Search		Page 1/3 BLS Employment by Supersect	
Employment Data	as of 2/2013	Region	MSAs	% Change	1 Year
1) Total Nonfarm		% Chg	4) Total Private		% Ch
11) Edison, NJ Metropolitan Division	2.0%	26) Edison, NJ Metropolitan Division	2		
12) Bergen-Hudson-Passaic, NJ	1.9%	27) Bergen-Hudson-Passaic, NJ	1		
13) Trenton-Ewing, NJ	1.5%	28) Trenton-Ewing, NJ	1		
14) Camden, NJ Metropolitan Division	1.3%	29) Camden, NJ Metropolitan Division	1		
15) Newark-Union, NJ-PA Metropolita...	0.8%	30) Newark-Union, NJ-PA Metropolita...	1		
2) Government		5) Service Providing			
16) Bergen-Hudson-Passaic, NJ	3.9%	31) Bergen-Hudson-Passaic, NJ	2		
17) Trenton-Ewing, NJ	2.1%	32) Edison, NJ Metropolitan Division	2		
18) Camden, NJ Metropolitan Division	1.4%	33) Camden, NJ Metropolitan Division	2		
19) Newark-Union, NJ-PA Metropolita...	-0.2%	34) Trenton-Ewing, NJ	1		
20) Edison, NJ Metropolitan Division	0.1%	35) Newark-Union, NJ-PA Metropolita...	1		
3) Federal Government		6) Professional and Business Services			
21) Camden, NJ Metropolitan Division	-3.5%	36) Camden, NJ Metropolitan Division	5		
22) Edison, NJ Metropolitan Division	-3.1%	37) Edison, NJ Metropolitan Division	3		
23) Newark-Union, NJ-PA Metropolita...	-2.9%	38) Newark-Union, NJ-PA Metropolita...	2		
24) Bergen-Hudson-Passaic, NJ	-1.1%	39) Bergen-Hudson-Passaic, NJ	2		
25) Atlantic City, NJ	0.0%	40) Trenton-Ewing, NJ	0		
51) Employment by Supersector	52) Employment by Key MSA				

Employment data is one way to understand local demographics of areas you are thinking of investing in.

Understanding local demographics is vital to assessing underlying financial strength of municipalities. This includes employment, housing, median income.

Using Price Transparency to Assure Better Execution

7031304F Muni		MSRB Trade History: Individual Trades					
Issuer	PATERSON NJ					CUSIP	7031304F8
Issue	REF						
Coupon	3.10000	Maturity	03/15/21	Issued	03/28/13	State	NJ
Trade Date	03/27/2013	Size	All Sizes				
	Time	Sale Type	Par	Volume(M)	Price	Yield	Assumed Settle
1.	09:31	Inter-Dealer		100	98.9	3.257	
2.	09:38	Inter-Dealer		100	99.589	3.158	
3.	09:38	Inter-Dealer		100	99.649	3.15	
4.	11:12	Inter-Dealer		430	99.301	3.2	
5.	11:12	Inter-Dealer		430	99.225	3.21	
6.	14:08	Purchase from Customer		100	98.8	3.272	
7.	14:44	Inter-Dealer		100	98.8	3.272	
8.	15:37	Sale to Customer		25	101.393	2.902	
9.	15:39	Sale to Customer		75	101.393	2.902	

Transparency on where bond trades are being transacted.

- First step to relative value is price transparency
- Look at where bonds trade on the day
- Obtain lists of similar bonds with similar characteristics

Corporate and Agency bonds

Key factors	Corporate bonds	municipal government general obligations	Revenue bonds	Structured securities
Confirm spread to U.S. Treasuries is consistent with bonds of similar credit quality	X	X	X	X
Confirm risk of default is low and consistent with bonds of similar credit quality	X	X	X	X
Confirm capacity to pay and assess operating and financial performance levels and trends through internal credit analysis and/or other third party analytics, as appropriate for the particular security	X	X	X	X
Evaluate the soundness of a municipal's budgetary position and stability of its tax revenues. Consider debt profile and level of unfunded liabilities, diversity of revenue sources, taxing authority, and management experience .....	.....	X	.....	.....
Understand local demographics/economics. Consider unemployment data, local employers, income indices, and home values .....	.....	X	X	.....
Assess the source and strength of revenue structure for municipal authorities. Consider obligor's financial condition and reserve levels, annual debt service and debt coverage ratio, credit enhancement, legal covenants, and nature of project .....	.....	.....	X	.....
Understand the class or tranche and its relative position in the securitization structure .....	.....	.....	.....	X
Assess the position in the cash flow waterfall .....	.....	.....	.....	X

These types of securities are generally more liquid than MBS
 Easier to generate a list of comparable bonds as it pertains to spread vs. Treasuries
 Still need to understand financial strength and default risk of corporate bonds regardless of ratings.

Confirming Consistent Spread to Treasuries

IBM 4 06/20/42		99) Feedback		Fixed Income Relative Value									
104.262/104.262		3.758/3.758		TRAC @ 04/12		95) Buy		96) Sell		97) Settings			
Current Data		My PCS		Historical Data		BVAL		10/15/12		-04/15/13		6 Months	
	Spread	Low	Range	High	Avg +/- bps	StdDev	#SDs	Trend					
1) Spreads to Curves (RV)													
2) Spread-Bench 87 59 91 78 9 7 1.3													
3) G-Spread 91 61 95 83 8 8 1.1													
4) I-Spread 95 84 117 99 -4 8 -0.5													
5) Price 104.262 99.636 109.476 103.893													
6) Credit Rel Value (CRVD)													
7) CDS Basis -40 -22 60 46 6 10 -0.6													
8) Bond vs Comparables (COMB) I-Spd Difference in comparable I-Spreads over 6 Months													
	Price	Yield	Spread	Diff	Lo	Range	Hi	Avg +/- bps	#SDs	Trend			
9) ORCL 5 3/8 07/40 123.5 3.96 119 -24 -37 -16 -23 -1 -0.1													
10) ORCL 5 3/8 07/40 123.5 3.96 119 -24 -37 -16 -23 -1 -0.1													
11) IBM 5.6 11/39 128.7 3.86 110 -15 -28 -13 -19 4 1.5													
12) MSFT 5.3 02/41 126.0 3.78 100 -5 -19 0 -11 6 1.3													
IBM 4 06/42 104.3 3.76 95													
13) MSFT 3 1/2 11/42 95.7 3.74 93 2 -5 11 1 1 0.3													
Avg of Comparables 3.86 108 -13 -21 -9 -16 2 0.9													
15) Avg Sector US DOMESTIC I... 4.47 168 -73 -89 -59 -70 -3 -0.4													
16) BVAL Price 104.3 3.76													

Investment guidelines expect investors to understand spread to treasuries in regards to similar securities

Understanding Default Risk



There are models available that help measure default risk without relying on Ratings Agencies.

Portfolio Risk Management

- Maintain Risk Exposure

- Generate Trade Ideas

- Current Pricing

- Performance in different interest rate scenarios

- Segregate by different parameters

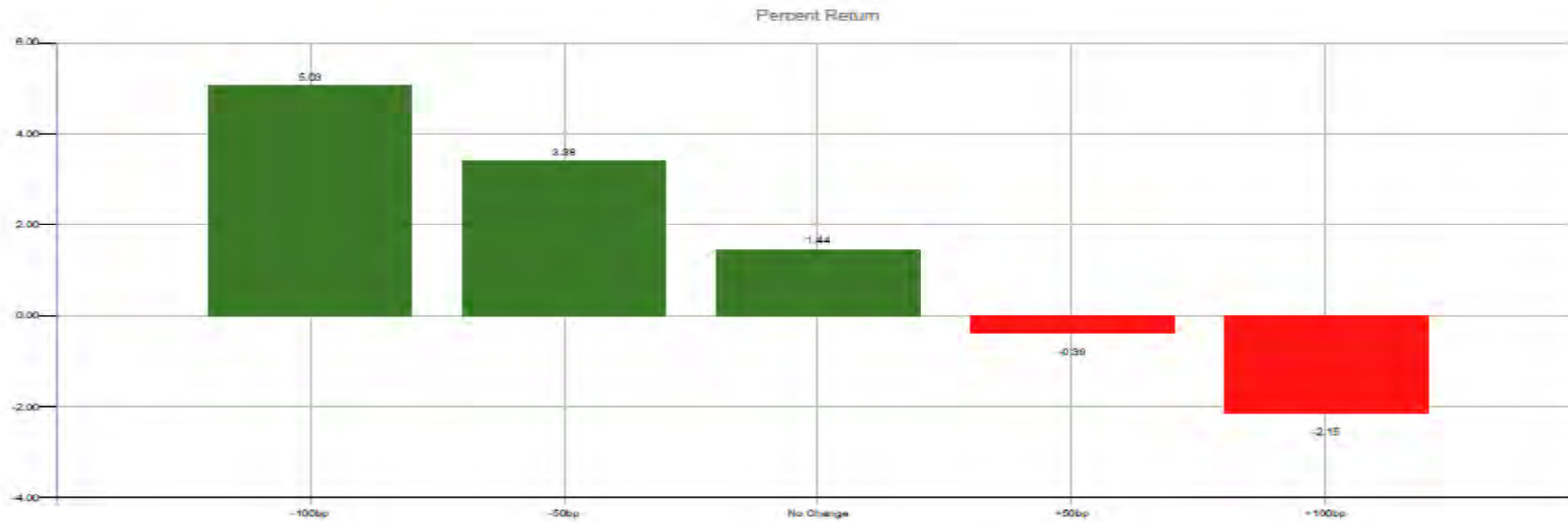
MANAGING KEY RATE DURATION



- Understand where most of the risk lies by looking at curve exposure
- Helps to make decisions based on the shape of the treasury curve
- Break out by each individual position

WHAT IS MY RETURN WHEN INTEREST RATES CHANGE ?

Portfolio: FREDDIECMO		Currency: USD		Scenario: +/- 50, 100bp		Settlement Date: 8/26/2011		Horizon Date: 2/22/2012		
Portfolio at Horizon										
	Principal (M)	Accrued Interest (M)	CF (M)	Horizon Value (M)	Duration	Convexity	BPV	Yield To Worst	Dollar Return (M)	Percent Return
Initial Portfolio Values	59,734.37	171.24	-	59,905.61	1.09	-2.42	6,575.21	2.55	-	-
-100bp	57,899.96	141.65	4,874.90	62,918.03	-0.92	-3.24	-4,213.84	1.77	3,012.42	5.03
-50bp	56,913.54	141.65	4,873.63	61,931.16	-0.26	-2.80	-292.51	2.09	2,025.57	3.38
No Change	55,750.22	141.65	4,871.44	60,767.43	0.69	-2.65	4,921.64	2.58	861.82	1.44
+50bp	54,660.25	141.65	4,866.52	59,674.53	1.74	-2.86	10,344.30	3.07	-231.06	-0.39
+100bp	53,609.09	141.65	4,861.56	58,620.39	2.78	-3.02	15,509.89	3.56	-1,265.22	-2.15



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USING EXCEL FOR PORTFOLIO SURVEILLANCE

	3m CPR	1m CPR	12m CPR	Factor	Price	Geography	Collateral
FHR 2543 LL Mtge		12	9	25	0.9	109.4 CA 19.5	FGLMC5.5
FHR 2686 CL Mtge		10	8	15	1.0	106.6 PA 11.3	FGCI 3.5
FHR 2770 AU Mtge		11	7	20	1.0	107.0 CA 32.8	FGCI 4
FHR 2990 FE Mtge		9	7	25	0.4	99.8 TX 9.8	FGLMC 6
FHR 3462 SD Mtge		13	7	25	0.5	15.5 TX 14.3	FGLMC6.5
FHR 3516 KA Mtge		10	9	27	0.5	104.9 FL 19.0	FGLMC 5
FHR 3636 MJ Mtge		8	10	17	0.9	110.1 FL 10.0	FGLMC 5
FHR 3762 SH Mtge		7	6	17	0.9	102.3 CA 8.6	FGLMC 5
FHR 3769 MD Mtge		4	6	10	1.0	102.1 NC 13.0	FGLMC 4
FHR 3769 QI Mtge		6	6	17	1.0	28.6 FL 9.4	FGLMC 5
FHR 3780 PL Mtge		5	5	10	1.0	101.3 CA 19.0	FGLMC 4
FHR 3784 BM Mtge		6	9	15	0.9	103.1 CA 21.5	FGCI 3.5
FHR 3786 GN Mtge		4	5	10	1.0	107.7 NC 10.0	FGLMC 4
FHR 3790 PA Mtge		5	7	16	1.0	108.4 TX 9.9	FGLMC4.5
FHR 3794 PB Mtge		8	6	16	1.0	108.4 TX 8.1	FGLMC4.5
FHR 3796 PA Mtge		7	6	17	1.0	104.7 FL 8.6	FGLMC 5

- Use Excel to bring collateral data from Bloomberg to monitor your portfolio
- Data is automatically updated every time a sheet is opened
- Customize reports that are easy to read

Conclusion

- Interest rates are at historic lows due to foreign central bank buying, economic uncertainty Fed intervention
- Low loan volume and increased deposits have increased AUM dramatically for many banks
- Important to invest wisely in an extreme low rate environment
- The OCC has put in guidelines as it comes to fixed income investing
- Guidelines include price transparency, relative value, financial analysis and portfolio risk management