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Other Than Temporary Impairment

Non-Agency Mortgage Backed Securities
Trust Preferred Securities

May 12, 2009



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Today's Topics

- Key Valuation Inputs
- Overall Performance by Vintage
- High Level Tests
- Accounting Implications



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Key Valuation Inputs

- Conditional Repayment Rate (CRR)
- Conditional Default Rate (CDR)
- Conditional Prepayment Rate (CPR = CRR + CDR)
- Loss Severity
- Credit Support
- Discount Rate



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Non-Agency MBS Conditional Repayment Rate

Varies by Credit Quality and Vintage - Incentive Versus Ability to Refinance

Recent 1 Month Examples

- 2004 Prime Fixed – 21%
- 2005 Alt A Fixed – 8%
- 2006 Alt A Hybrid – 4%
- 2007 Option ARM – 2%



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Non-Agency MBS CDR and CRR are Almost Mirror Images

Driven by Loan to Value and Underwriting (Full Doc, Stated Income, etc.)
Most Experts Begin With Delinquencies at the Valuation Date and
Estimate Roll Rates and Expected CDR on Loans that are Current at
Valuation Date

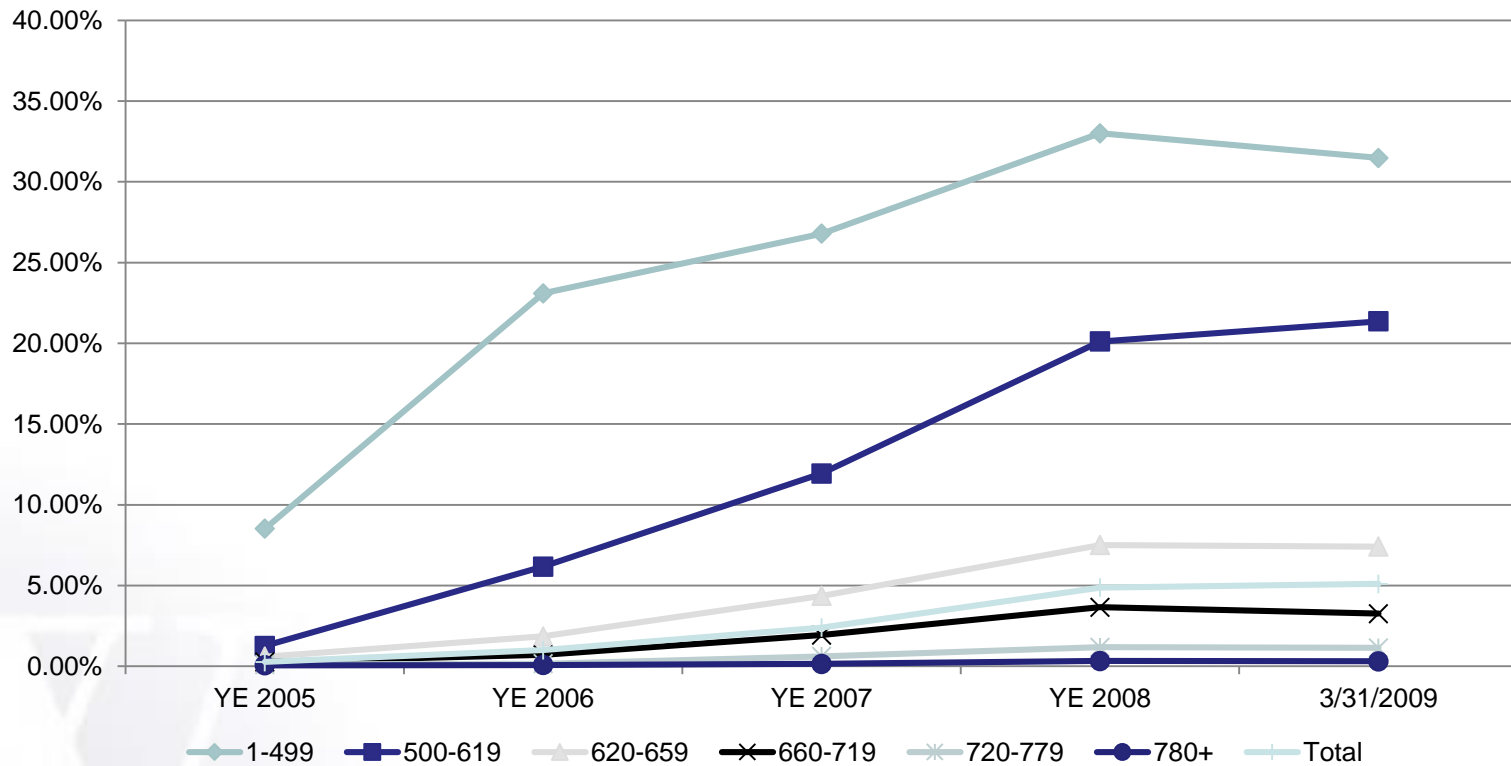
Recent 1 Month Examples

- 2004 Prime Fixed – 0%
- 2005 Alt A Fixed – 3%
- 2006 Alt A Hybrid – 12%
- 2006 Option ARM – 11%



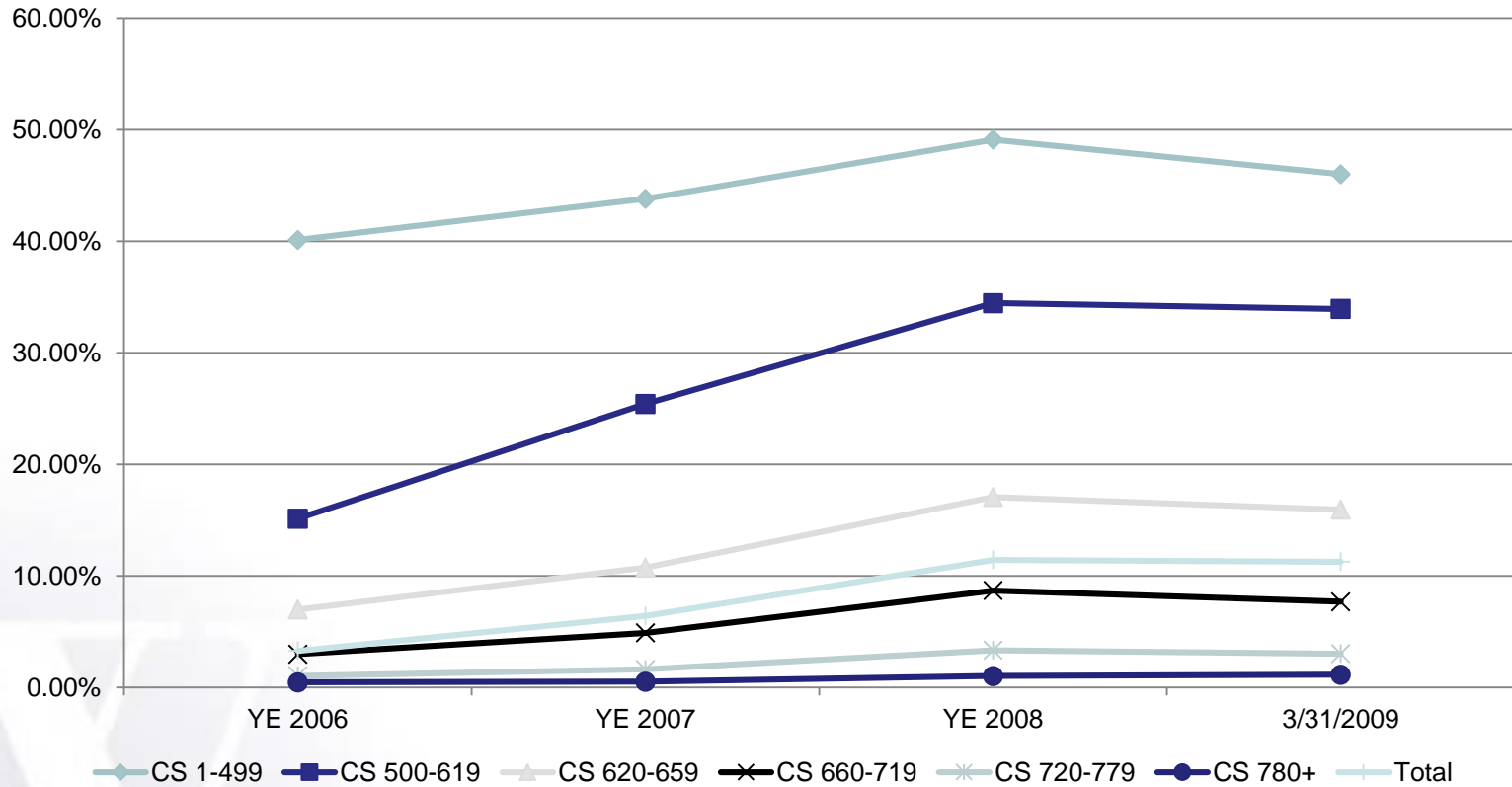
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2nd Half 2005 Vintage – 60+ Days Delinquent



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1st Half 2006 Vintage – 30+ Delinquencies



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Non-Agency MBS Loss Severity

Dependent on Origination Vintage

Change in Price and Forecasted in Change in Price are the Drivers

Geography is Very Important

Alt A Fixed Rate Examples per JP Morgan

- 2003 – 30%
- 2004 – 41%
- 2005 – 48%
- 2006 – 52%
- 2007 – 50%



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Non-Agency MBS Cumulative Loss Rates (CLR)

Total Life Losses Divided by Original Principal Balance

- 2004 Prime Fixed – .16%
- 2005 Alt A Fixed – 7%
- 2006 Alt A Hybrid – 32%
- 2006 Option ARM – 34%



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Non-Agency MBS Rating Agency Results

Percentage of Bonds Originally Rated AAA that have been Downgraded per JP Morgan

- Prime – 49%
- Alt A – 77%
- Option ARM – 95%



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Non-Agency MBS Credit Support

- Collateral Cash Flows
- Percentage of Bonds that are Subordinate to the Bond Being Valued
- Discounted Cash Flow Analysis – WW Risk Management Uses Intex



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Active Market and Non-Agency MBS Discount Rates

Indications of an Inactive Market

- Few Recent Transactions
- Price Quotations Not Current
- Indexes that were Previously Highly Correlated No Longer Are
- Significant Increase in Liquidity Risk Premiums, Yields or Performance Indicators
- Wide Bid Ask Spread
- Significant Decline or Absence of New Issuances
- Little Information is Released Publicly



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Non-Orderly Transactions and Non-Agency MBS Discount Rates

- Inadequate Marketing Time
- Usual and Customary Marketing Period but Single Participant
- Seller is Distressed
- Transaction Price is an Outlier



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Non-Orderly Transactions and Non-Agency MBS Discount Rates

- Little Weight Should be Given to Non-Orderly Transactions
- Discount Rate Should be Risk Free Rate Plus a Risk Premium that Would be Used in an Orderly Market to Adjust for the Uncertainty of the Cash Flows



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Non-Agency MBS Discount Rates

Level 3 Input

- Pre 2005 Securities are in the 6 to 8 Percent Range
- Later Vintage Securities are in the 22 to 25 Percent Range



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High Level Test Example

Security Description			A							B	C	B * C	A - D
			Credit Support		Delinquency					30+	Loss	D	E
Deal Name	CPN	Type	Orig.	Curr.	30DLQ	60DLQ	90DLQ	REO	fcls	Delq.	Sev.	High Lvl Loss	Crdt Sup minus HLL
2005-S2 A16	6.50	FIXED	5.25	7.10	0.70	0.16	0.79	0.38	8.93	10.96	40%	4.38	2.72
2006-J1 A1	7.00	FIXED	9.75	10.41	1.89	3.86	8.26	7.35	13.86	35.22	45%	15.85	(5.44)
2007-16C A2	6.75	FIXED	3.60	3.98	5.05	3.23	10.12	5.02	10.66	34.08	50%	17.04	(13.06)
2007-1 A2	6.50	FIXED	5.75	6.82	4.46	3.48	5.51	3.68	9.29	26.42	50%	13.21	(6.39)

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Sample Report Appendix A

Security	CRR	CDR	Loss	Disc.	Fair	Disc.	Fair	Value @	Original	Value @	Book
NAME	(vol.)	(invol.)	Sev.	Rate 1	Value 1	Rate 2	Value 2	Coupon	Yield	Orig. Yield	Value
2003-10 3A1	11.10	0.28	24.90%	7.00%	93.3020	10.00%	82.3568	99.9134	5.64%	99.2606	96.3930
2003-3 A5	6.92	1.59	24.14%	7.00%	92.7491	10.00%	78.5284	100.0263	5.34%	102.6272	98.5489
2004-QS1 A1	8.88	1.85	25.62%	8.00%	90.6929	12.00%	83.8527	99.9288	5.40%	96.9129	96.7440
2006-A8 1A1	5.25	5.96	53.35%	15.00%	63.2460	17.00%	59.4567	89.8287	4.83%	95.1462	95.6393
2007-F1 1A2	4.53	6.43	51.87%	15.00%	66.9018	17.00%	62.9876	92.2813	4.52%	98.2341	99.9063



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Sample Report Appendix B

Orig.		GEO #1			GEO #2			GEO #3			Lim.	Credit	Orig.	Curr.	30 Days	60 Days	90 Days	Fore-
WAM	WAM	Age	Curr. %	Curr. %	Curr. %	Doc %	Score	WALTV	Support	Support	Delinq.	Delinq.	Delinq.	REO	closure			
357	288	64	CA 25.4	TX 11.2	NY 5.8	57.1	730	68.3	5.30	13.75	1.27	1.49	1.15	0.45	2.01			
283	235	48	CA 22.9	FL 10.1	TX 9.5	40.0	643	61.5	4.52	9.62	7.95	1.96	2.75	0.53	3.37			
359	325	33	CA 17.0	FL 15.1	TX 5.6	74.1	715	74.0	6.75	5.62	4.99	3.16	5.80	1.10	10.61			
359	334	25	CA 19.5	FL 12.1	VA 5.8	76.7	704	73.4	12.95	12.54	5.88	4.92	6.11	1.08	9.15			
360	336	23	CA 43.6	NY 9.1	FL 6.4	71.7	704	72.6	6.00	5.24	5.36	3.43	7.82	2.63	5.10			



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Trust Preferred Securities - TruPS

- Collateralized Debt Obligations
- Collateral can Be Bank, Insurance or Commercial Real Estate Loans
- Same Primary Valuation Inputs

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TruPS – CRR

- Market is Inactive and Forecasts Rates are Modest
- While Prepayments can Create Additional Over Collateralization – the Major Issue is Adverse Selection



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TruPS – CDR

WW Risk Management Estimates Near Term Defaults and Deferrals Using Ratio Analysis – then Reverts to Industry Averages

- Capital – Tier 1 and Leverage
- Asset Quality – Including 4 “Texas Ratios”
- Profitability – Net Interest Margin, ROA, Efficiency
- Liquidity
- Recent Ratings and Recent Stock Market Performance
- TARP or No TARP



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TruPS – Loss Severity

- Deferrals Do Not Effect Net Present Value Results – Interest on Interest
- Loss Severity – Losses on TruPS are Very High – WW Risk Management Uses 95%



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TruPS Other Considerations

- Deferrals Do Not Effect Net Present Value Results
- Information is not as Transparent as that for More Frequently Traded Securities
- Fitch Recently Downgraded All Mezzanine Tranches
- Long Duration Instruments Very Sensitive to Discount Rates which Vary Greatly



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Accounting Considerations – FSP 115-2 and 124-2

Debt Security has OTTI if:

- Institution Intends to Sell
- More than Likely than Not Institution Will Be Required to Sell Before Recovery
- Entity Does Not Expect to Recover Amortized Cost Basis

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Considerations Regarding Recovery

- Length of Time and Extent to Which Fair Value has been Less than Amortized Cost
- Adverse Conditions Related to Security, Industry or Geographic Area
- Historic and Implied Volatility of Security
- Failure of Issuer to Make Scheduled Principal or Interest Payments
- Changes to Rating
- Subsequent Recoveries or Additional Declines in Fair Value



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Held to Maturity Securities

Discounted Cash Flow Analysis – Two Portions of Impairment –
Credit and Other

- Credit – NPV of Cash Flows at Original Effective Yield
- Other – NPV of Cash Flows at Market Discount Rate – Cost Basis less Fair Value less Credit Portion Goes to OCI



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Subsequent Accounting HTM Securities

- Previous Basis less OTTI Credit Portion Becomes New Basis
- OCI Discount Accreted into OCI



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Subsequent Accounting AFS Securities

- OTTI Credit Portion goes to Income Statement
- Can have Additional OTTI but cannot Increase New Basis
- Subsequent Changes in Fair Value go to OCI



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