



NCTR 90th Annual Convention

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Current Agency Pass-Through Strategy

Specified pools

- Take advantage of prepayment volatility

FNMA 30-year 4.5% conditional prepayment rate (CPR)* dispersion:

	March 2012	March 2011	March 2010
Fastest 20%	50.0	15.5	12.8
Average	29.4	6.6	4.8
Slowest 20%	3.2	0.3	0.4
Range	46.8	15.2	12.5

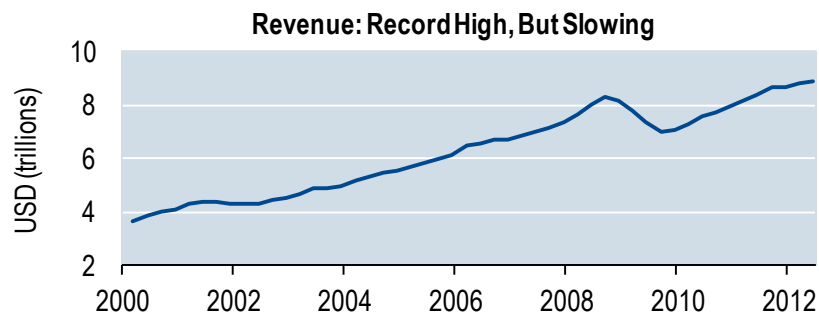
Source: Morgan Stanley. As of 31 Mar 12

Examples of “good” characteristics:

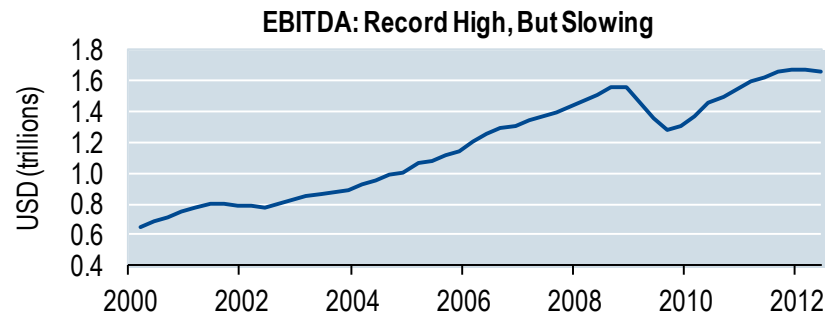
- High loan-to-value (LTV) 2010 production of Home Affordable Refinance Program (HARP) loans
- GNMA pools with high % FHA and low % VA Loans
- Low % of third-party originated loans
- Low LTV pre-HARP cutoff
- GNMA pools originated in summer 2010
- Investor-only pools

* 1 CPR difference adds approximately 10 basis points performance to MBS index

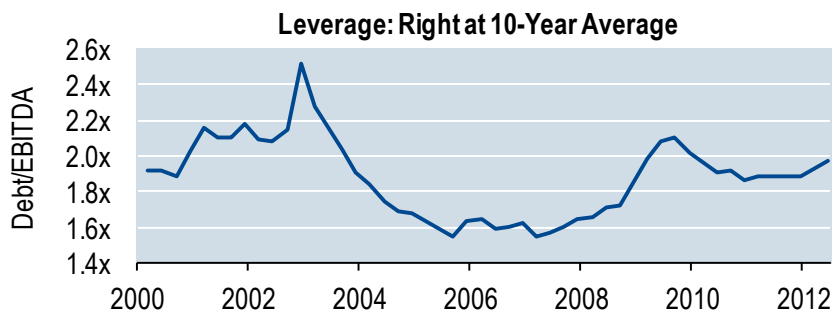
Fundamentals: High-Grade Credit Fundamentals Continue to Impress



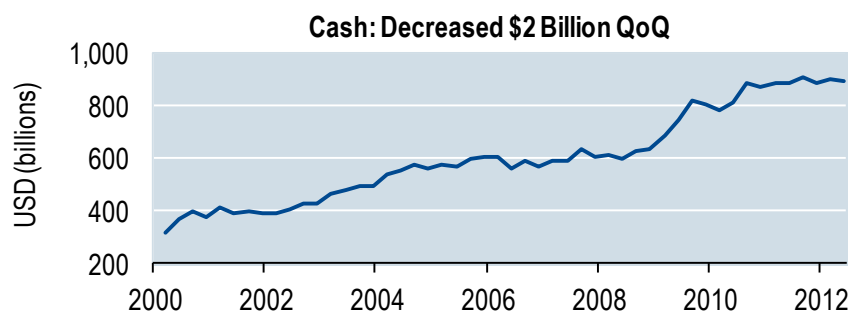
Source: JPMorgan. As of 30 Jun 12 (last 12 months)



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Source: JPMorgan. As of 30 Jun 12 (last 12 months)

Credit Fundamentals	Trend	Credit Impact	Comment
Revenue	Neutral	Positive	Decreased <1% quarter-over-quarter, increased 5.7% year-over-year
Capex	Increasing	Neutral	Capacity utilization at 79.3% from 67% at depth of crisis
Interest Expense	Decreasing	Positive	Decreased 1% quarter-over-quarter, increased 1% year-over-year
Debt	Increasing	Negative	Increased 2% quarter-over-quarter, 7% year-over-year

Fundamentals

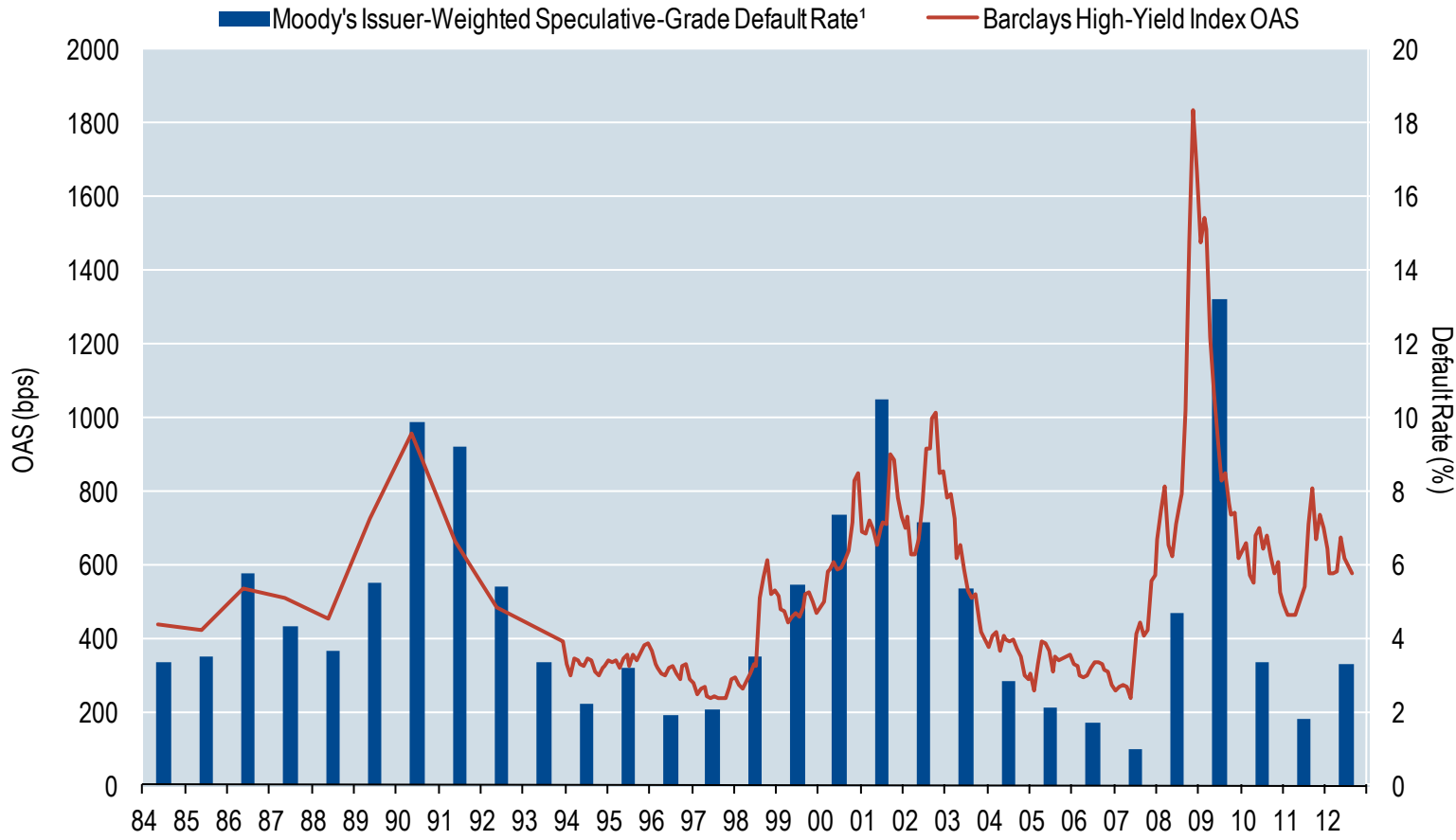
Financials Have the Most Room to Normalize

Banks vs. Credit Index: OAS Comparison



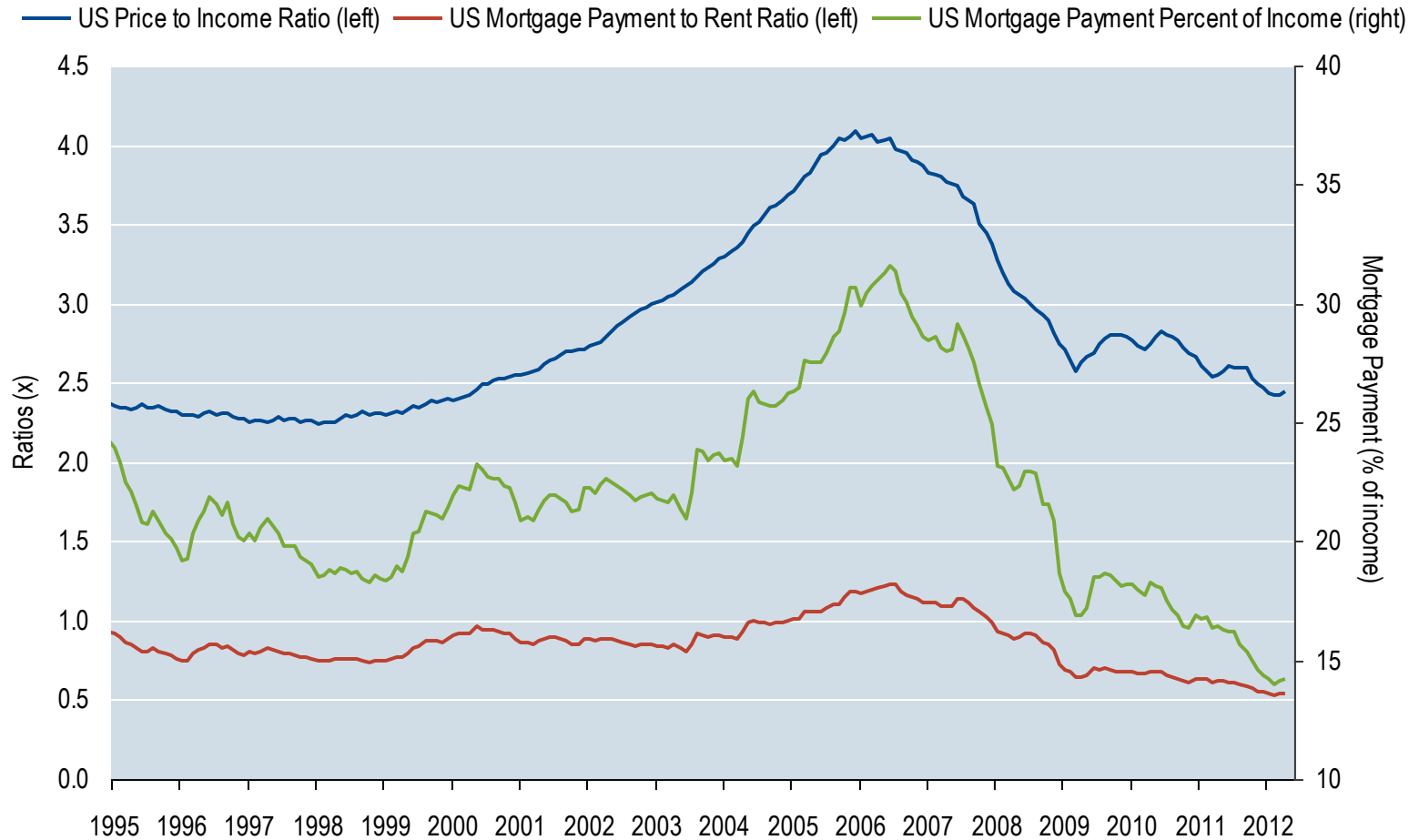
Source: Barclays. As of 31 Aug 12

Spread and Default Rate Correlation



Source: Moody's, Barclays, Western Asset. As of 31 Aug 12
¹Moody's Issuer-Weighted Speculative-Grade Default Rate as of 31 Jul 12

Housing Affordability



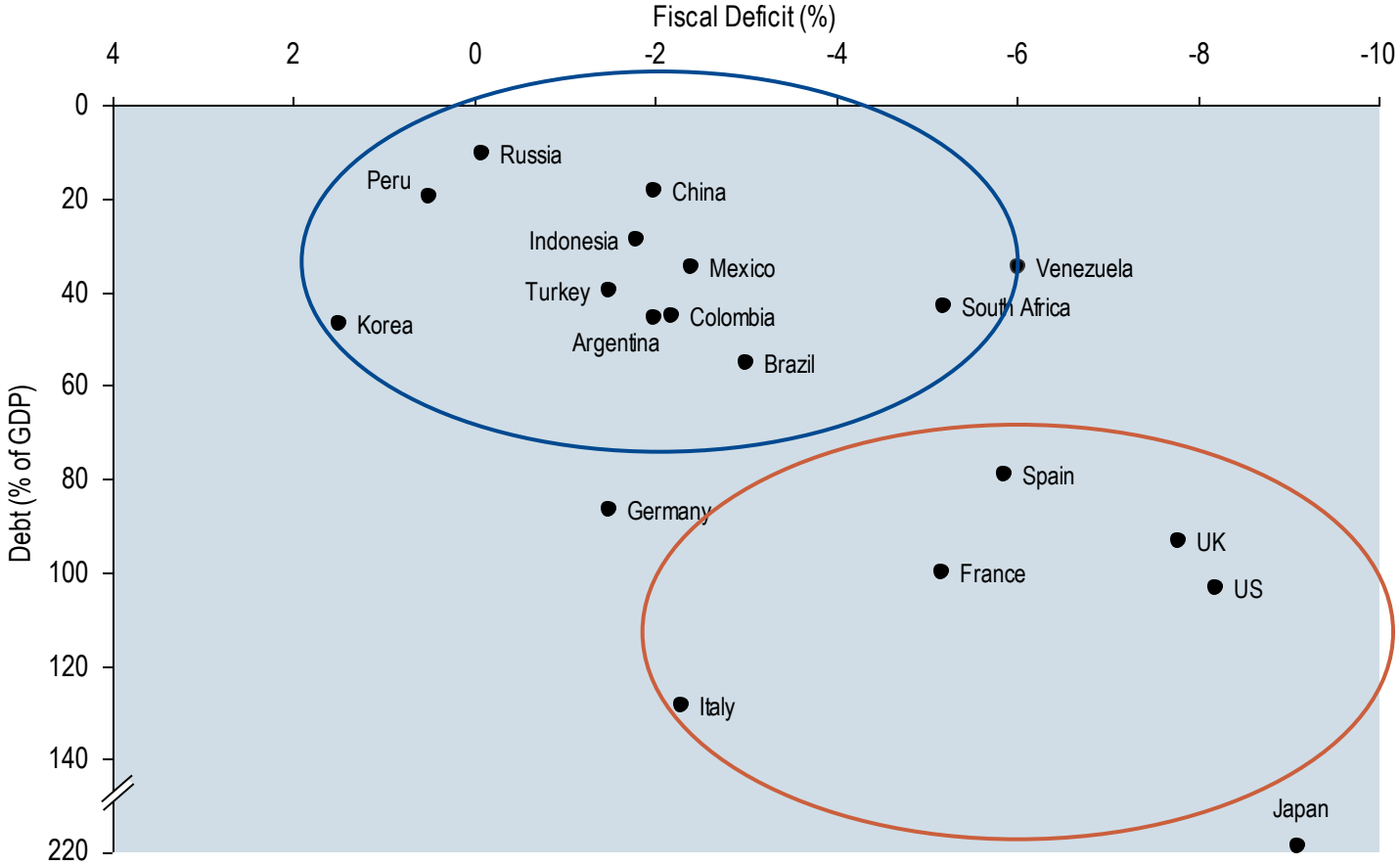
Source: S&P/Case-Shiller, Bureau of Labor Statistics, Moody's Economy, National Association of Realtors, Freddie Mac, HUD, Citibank. As of 30 Apr 12

Price to income lowest in 10 years but still higher than 1990s

Mortgage affordability highest in 40+ years

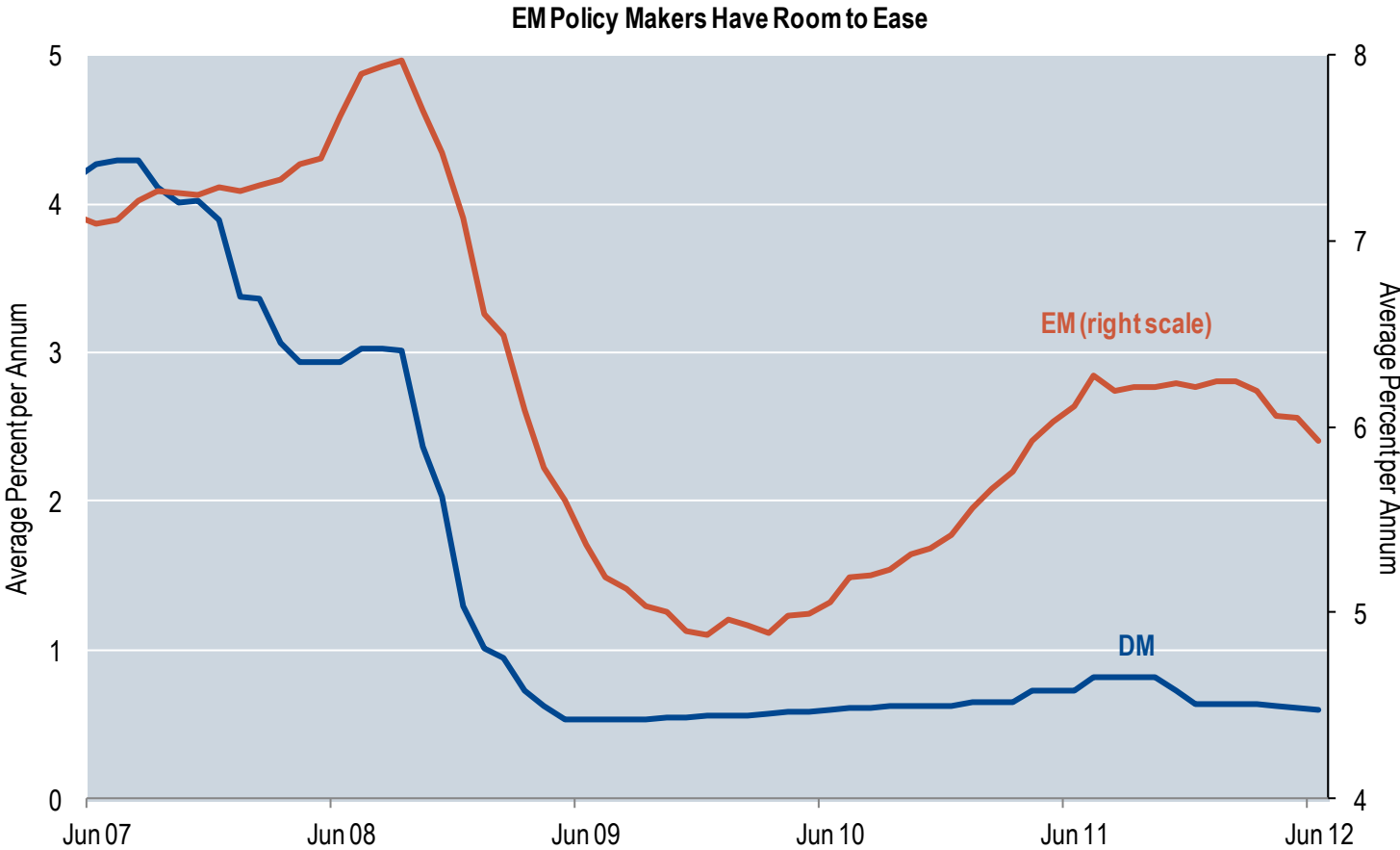
Own vs. rent relationship most attractive in 15+ years

EM Balance Sheet Strength is One Pillar of Support



Source: JPMorgan. 2012 Estimate as of 30 Jun 12

EM Policy Flexibility is the Other Pillar of Support



Risk Disclosure

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