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Sent: Monday, February 11, 2013 5:08 PM
To: Epstein, Jeffrey (jeevacation@gmail.com)
Cc: Ens, Amanda; Weissend, Renee E
Subject: NEW HY RMBS BWIC - \$4.3mm of RFMSI 04-S4 1M1 @ 85-16 (6.51% yield/2.97 durn)

Jeffrey

We should buy \$1MM of this bond.

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THE BOND:

The RFMSI 04-S4 1M1 is a Prime Seasoned Fix 5.25% Sub bond backed by 105 months seasoned fix mortgages. The bond has 2.38% credit enhancement vs 7.08% 60+ delinquencies, for a 0.34x coverage ratio.

THE COLLATERAL:

The pool consists of 145 Prime loans that are 105 months seasoned with an average updated LTV of 56%. The average balance of the loans is \$296k – this coupled with the low updated LTV should result in both low CDRs and Severities. In fact, there has been only 2 CDR prints over the last 12 months and the average severity of those 2 prints is 20.64%. Our base case assumes 35% severity ramping down to 30% over 3 years. What's more interesting is that the 5 foreclosure loans in the pipe have an updated LTV of 41%, which is even lower than the overall pool LTV of 56%. According to our model, this should translate to lower severities at liquidation.

THE STORY:

For investors looking for a housing recovery play backed by seasoned Prime collateral, this bond offers a great convexity story levered to prepayments and overall homeowner performance.

Please call the desk with all bids/inquiries related to this bond. X32124

HIGHLIGHTS

- HPI Updated LTV = 56%
- 87% of the borrowers have not missed a payment in the past 2 years

- 105 months seasoned
- 735 FICO
- \$296k average balance

**Source: Bloomberg

RFMSI 2004-S4 1M1 Offered @ 85-16

BOND DESCRIPTION

Prepay Rate

20 CPR

24 CPR

28 CPR

Cusip:

76111XHZ9

Default Rate

2 ramp 20 4 3 ramp 12 2 CDR

2 ramp 20 4 3 ramp 36 1.75 CDR

2 ramp 20 4 3 ramp 12 1.5 CDR

Original Face:

4,314,300

Default Severity

40 ramp 36 35

35 ramp 36 30

30

Current Face:

2,002,760

Delinq Rate

7.5 Percent

7.5 Percent

7.5 Percent

Bond Type:

Prime Fix 5.25% Mezz

Delinq Advance (% of P&I)

100

100

100

Ratings (S&P/Moodys/Fitch):

CCC/-/NR

Current Coupon:

5.250%

Yield @ Base Case

6.509%

Price @ 85-16

WAL @ Base Case

4.03

Yield

2.124

6.509

9.838

Principal Window @ Base Case

Mar13 to Oct37

Spread over Tsy

136

575

912

Writedown %

14.66%

Duration

3.18

2.97

2.71

Current Credit Enhancement:

2.38%

WAL

4.05

4.03

3.84

60+ Delinquencies

7.08

Principal Window

Mar13 to Mar36

Mar13 to Oct37

Mar13 to Oct37

60+ Delinquency Coverage

0.34x

Principal Writedown

29.22%

14.66%

3.28%

Total Collat Loss

0.54%

0.46%

0.39%

UNDERLYING COLLATERAL DESCRIPTION

Total Liquidation

7.59%

6.83%

5.55%

Average Loan Balance (\$,000s)

296

Loan Count

145

HISTORICAL PERFORMANCE

Mortgage Type

Seasoned Prime 30yr Fix

1 MOS

3 MOS

6 MOS

Wtd Avg Mortgage Coupon

5.655%

CPR

27.23

31.87

27.45

Wtd Avg FICO Score

735

CDR

0.00

4.64

2.20

Wtd Avg Orig Loan-to-Value

54.81%

SEV

NA

30.01

30.01

HPI Adj LTV

56.15%

Weighted Avg Loan Age

105

Owner Occupied

96.17

Top 1 Geo Concentration

CA 49%

Top 2 Geo Concentration

TX 7%

Top 3 Geo Concentration

NY 5%

Always Current (24 mos)

86.81%

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