The Refinance Boom is Over

Implications for Mortgage Banking Through 2014

Highlights

August 29, 2013
Kevin Barker
202.534.1398
kbarker@compasspointllc.com
Steven Seperson
202.534.1387
sseperson@compasspointllc.com

Companies Mentioned

Ticker	Price Target	Rating
BBT	$42.00	Buy
EVER	$14.00	Sell
FBC	$14.50	Neutral
FITB	$19.00	Neutral
NSM	$58.00	Buy
PFSI	$18.00	Neutral
PHH	$26.00	Buy
PMT	$25.00	Buy
PNC	$82.00	Buy
RF	$10.50	Neutral
STI	$38.00	Neutral
USB	$36.00	Neutral
WAC	$43.00	Neutral
WFC	$42.00	Neutral

The increase in mortgage rates has pushed refinance application volume down to levels we have not seen since early 2011. Given the expectation for rates to remain at current levels or potentially move higher, the refinance boom we experienced over the past 12 years has likely ended. Over the long-term, we expect this to result in a smaller, albeit more stable, market for mortgage originators if the market can effectively adjust capacity. However, in back half of 2013, we expect mortgage production revenues to be 20-30% lower than we saw in the first half of the year due to declines in both volume and margin. These declines have been confirmed by the 37% drop in the MBA market application index from last quarter and the ~20% drop in our gain on sale index. Market participants have already started to adjust to these declines by reducing staff, but it will likely take a few quarters before capacity adjusts to the decline in overall volume. We believe the headwinds in the mortgage market will continue to pressure companies heavily reliant on origination revenue through the end of the year.

Second half of 2013 will test market. We expect the second half of the year to be one of the most competitive mortgage markets we have seen in the last five years. The recent rate move in rates and application volume is similar to what the market experienced from the second half of 2010 to the first half of 2011. During this period, mortgage banking revenue declined by an average of 26% for the largest market participants. We would expect the back of 2013 to look very similar to the first half of 2011, with a couple of exceptions due to changes in distribution and HARP volumes.

Origination volume bottoms in 2014 over $1.2 trillion. The MBA estimates $1.1 trillion of originations in 2014. We believe this estimate could ultimately prove to be conservative because it assumes only 4.0% of all mortgages outstanding refinance in the next year. Since 1991, no less than 4.5% of all mortgages have refinanced in any given year. Considering HARP remains in place and many borrowers are now "in-the-money" with home prices continuing to rise, we believe at least 5% of mortgages could refinance in 2014, implying $490B of refinances. Combined with an estimated $750B purchase market, this could lead to an origination market between $1.2-1.3 trillion.

Purchase-heavy originators have advantage. Lenders that tend to originate more purchase volume than refinance volume or have access to a larger pool of HARP-eligible borrowers will likely see a smaller decline in volume. Also, these lenders will tend to have stronger gain on sale margins considering borrowers are less price sensitive when buying a home or refinancing an underwater mortgage. Mortgage banks with largest purchase share during 2Q13 (in order): RF, WFC, BBT, USB, PHH, STI, EVER, FBC, PNC, NSM, FITB, WAC. We would point out NSM and WAC stand out as having a large amount of HARP-eligible borrowers in their servicing portfolios, which should be less impacted by mortgage rates near 4.5%. The banks most sensitive to the decline in refinance volume and margin, as it pertains to earnings, are FBC, EVER, FITB and USB. We would also expect PHH and PMT to see pressure on the top-line, but both are trading near or below TBV, we have significant declines already modeled and tend to originate more purchase volume compared to the industry.

Adjusting estimates. We are adjusting our estimates to take into account the most recent indications of volume and margin. See page 2 for further details.

Changing EPS Estimates

We are slightly adjusting our EPS estimates for a couple of mortgage originators to take into account the recent changes in gain on sale margins for 3Q13. We estimate gain on sale margins could be down ~20% from 2Q13 due to a tightening in the average primary-secondary spread from 1.05% to 0.97%. The decline will vary from company to company due to changes in channel mix, HARP volumes and other one-off items.

We are lowering our 3Q13 operating EPS for **BBT** from $0.75 to $0.74 and FY14 from $3.10 to $3.07; **FBC** 3Q13E EPS from ($0.18) to ($0.25) and FY14 from $0.58 to $0.35; **FITB** FY14E EPS from $1.67 to $1.65; and, **USB** 3Q13 EPS from $0.77 to $0.74 and FY14 from $3.22 to $3.16.

Summary of EPS Changes

	3Q13E GAAP EPS		FY13E GAAP EPS		FY14E GAAP EPS	
Company	Old	New	Old	New	Old	New
BBT	$0.75	$0.74	$2.57	$2.55	$3.10	$3.07
FBC	($0.18)	($0.25)	$0.76	$0.58	$0.58	$0.35
FITB	$0.41	$0.41	$1.89	$1.88	$1.67	$1.65
USB	$0.75	$0.74	$2.98	$2.96	$3.20	$3.16

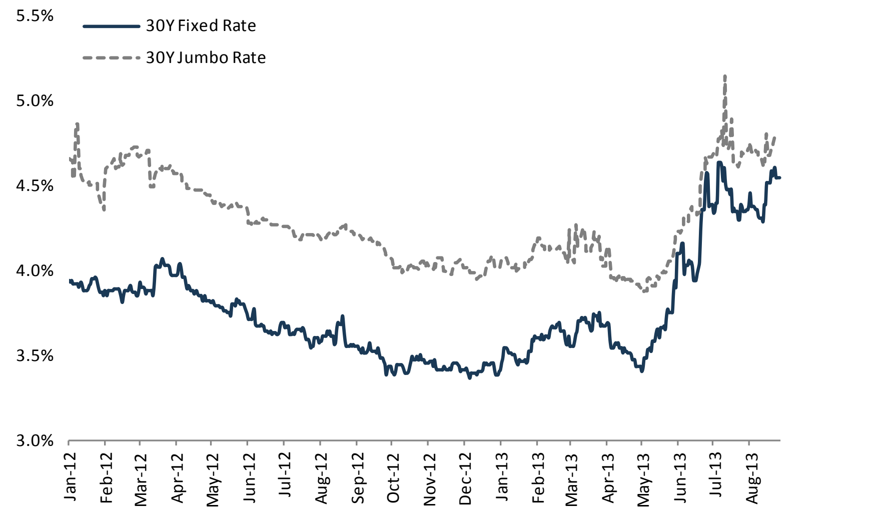
	3Q13E Operating EPS		FY13E Operating EPS		FY14E Operating EPS	
Company	Old	New	Old	New	Old	New
BBT	$0.75	$0.74	$2.98	$2.96	$3.10	$3.07
FBC	($0.18)	($0.25)	($0.06)	($0.24)	$0.58	$0.35
FITB	$0.41	$0.41	$1.61	$1.60	$1.67	$1.65
USB	$0.77	$0.74	$3.03	$2.96	$3.22	$3.16

Source: Compass Point

Back Half of 2013 Will Test Mortgage Banks

The third and fourth quarters of 2013 will test mortgage banks' pricing discipline. Mortgage applications are down over 60% from their peak in May and total originations are forecasted to average ~$340B per quarter from the ~$525B recorded during the past year. Considering the industry has been increasing capacity over the past 18 months, we expect the market to get more competitive, which will cause gain on sale margins to decline along with origination volumes. If we were to look at the back of half of 2013, it is setting up to be similar to the first half of 2011. We expect mortgage banking revenue to decline 27% in the back half of the year for the industry (see page 5 for further details).

Mortgage Rates Have Moved Higher...

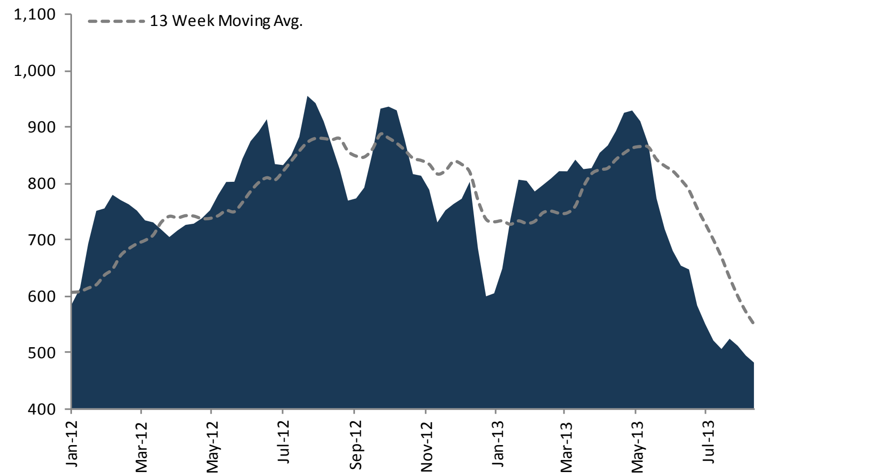


Source: Bankrate, Bloomberg, Compass Point

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

This is causing mortgage applications to decline...

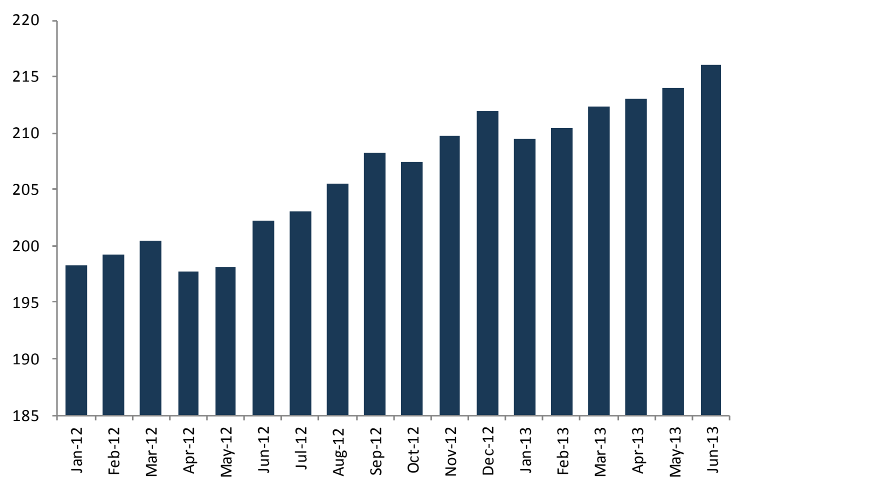
MBA Unadjusted Weekly Application Index (2012-2013)



Source: MBA, Bloomberg, Compass Point

Meanwhile, the industry has been hiring the past 18 months...

Industry Employment (2012-2013, 000s)



Source: Bureau of Labor Statistics, Compass Point

And is now trying to adjust to the new environment...

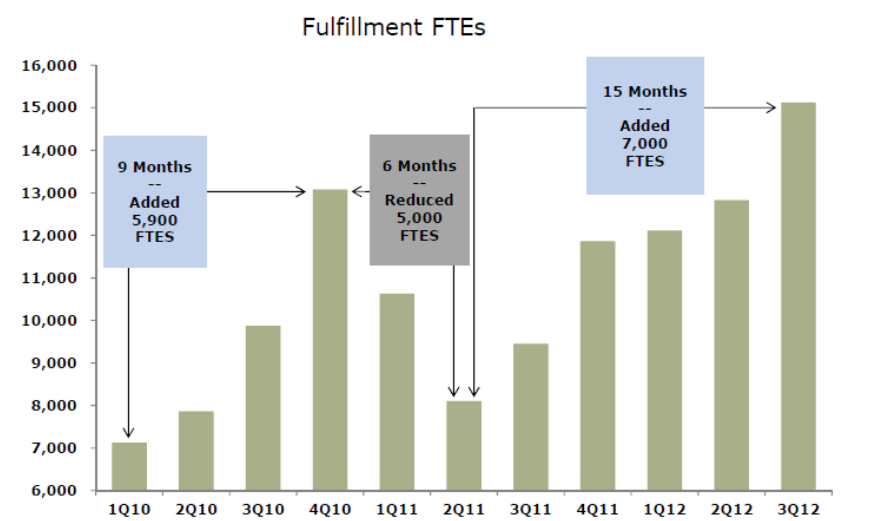
"Wells Fargo & Co. (WFC), the biggest U.S. home lender, will eliminate 2,300 jobs in mortgage production because demand for refinancings has slumped and probably will drop more as interest rates rise." (8/22/2013)
- [Bloomberg]

"We expect to see the number of people in the businesses reduce as part of our normal focus on expense management, ranging 3000 to 4000 people outside of the Mortgage business and an incremental 13,000 to 15,000 in Mortgage." (JPM's Investor Day - 2/26/13)
- *Gordon A. Smith, Consumer & Community Banking CEO*

but, it could take a couple of quarters...

As shown in the table below, Well Fargo was able to reduce 5,000 FTEs within two quarters from 4Q10 to 2Q11.

Wells Fargo Mortgage Banking Personnel



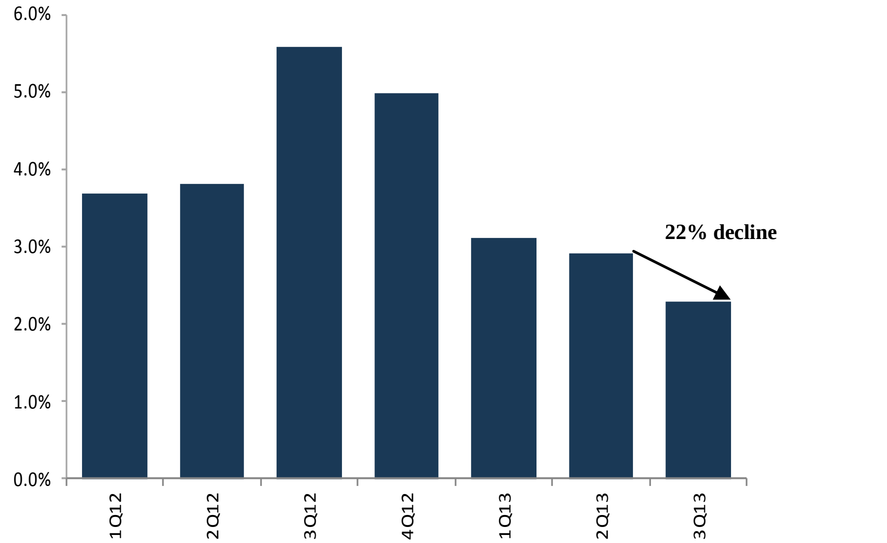
Source: Wells Fargo Investor Presentation at Bank of America Conference

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

Which will likely cause gain on sale margins to contract...

We estimate gain on sale margins for retail originated loans will decline ~20% from 2Q13 to 3Q13. The main driver of the decline is the tightening of the primary-secondary spread from 1.05% in 2Q13 to an average of 0.97% in 3Q13.

Compass Point Gain on Sale Index (Quarterly Average)

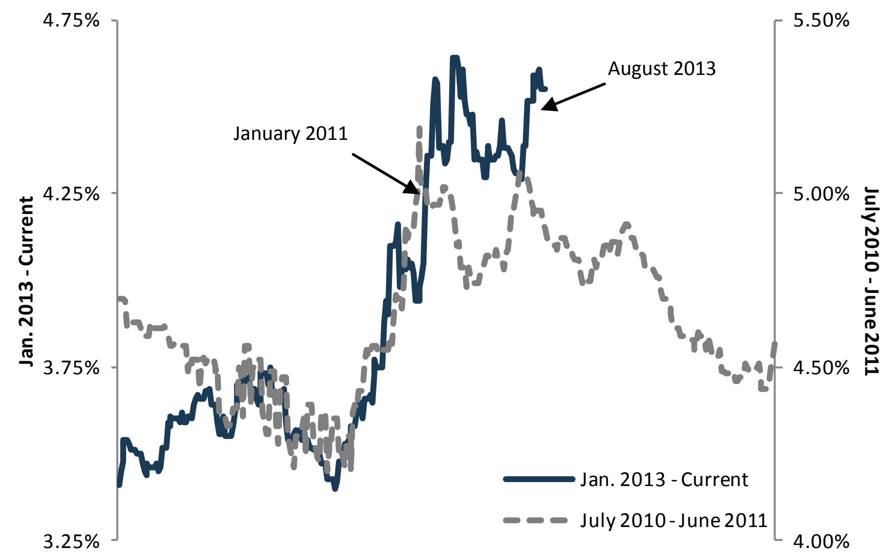


Source: Bankrate, Bloomberg, FHFA, Compass Point

2H13 Could Look Like 1H11

The second half of 2013 may look very similar to the first half of 2011. During the first half of 2011, mortgage rates moved up in similar fashion to what we have seen the past few months (see chart below). Meanwhile origination volumes are forecasted to decline 35%, the same amount of decline recorded from the back half of 2010 into the first half of 2011.

30Y Fixed Mortgage Rates

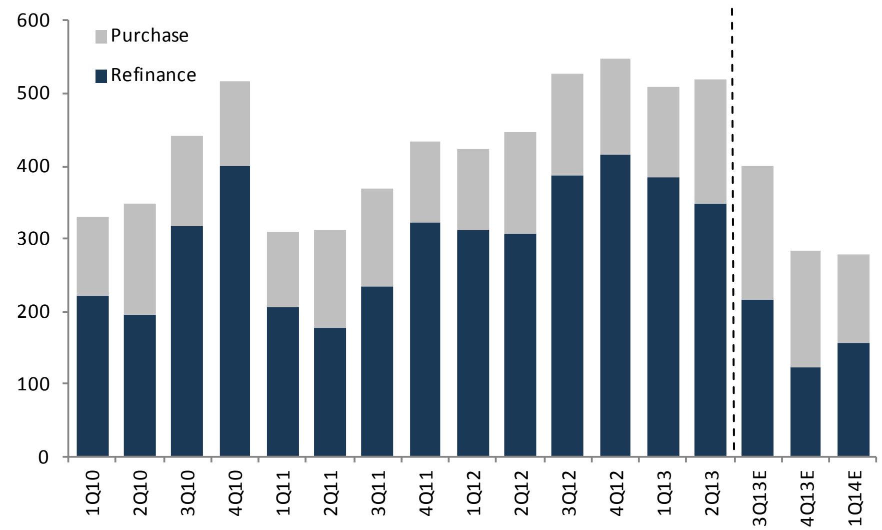


Source: Bankrate, Bloomberg, Compass Point

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

Refinance volumes still have not bottomed and we are entering the slowest months for purchase volume. Purchase volumes are expected to peak in 3Q13 before dropping off in the seasonally-slow fourth and first quarters of the year. Overall origination volumes are estimated to be ~$400B in 3Q13, ~$280B in 4Q13, and ~$280B compared to an average of $310B during the first half of 2011.

Mortgage Origination Forecasts ($B)



Source: MBA, Fannie Mae, Freddie Mac, Compass Point

If we were to take a closer look at mortgage banking revenue compared to the second half of 2013, we estimate the average decline between 1H11 and 2H10 was 26%; in-line with our estimate for a 27% decline from 1H13 to 2H13. The primary driver of the decline in our mortgage banking estimates is a decline in origination volume. The average decline in our gain on sale margin is only 19% compared to the 22% decline in the first half of 2011, but the decline expected this time around is skewed due to changes in distribution mix (less wholesale/correspondent lending).

Current Mortgage Banking Forecasts: 2H10 vs. 1H11 and 1H13 vs. 2H13E

	Mortgage Banking Revenue					
($M)	2H10	1H11	%	1H13	2H13E	%
BBT	322	178	-45%	348	248	-29%
EVER[1]	50	31	-39%	178	139	-22%
FBC	228	157	-31%	330	175	-47%
FITB	381	264	-31%	453	243	-46%
NSM[1 2]	39	43	12%	471	487	3%
PHH	747	501	-33%	684	548	-20%
PNC	373	358	-4%	401	315	-21%
RF	117	95	-19%	141	107	-24%
STI[3]	554	317	-43%	360	275	-24%
USB[4]	560	438	-22%	797	537	-33%
WFC[3]	6,090	4,126	-32%	5,970	4,134	-31%
Avg Decline			**-26%**			**-27%**

[1] *2H10 figures are based on FY10 results in which revenue and originations are calculated by taking 50% of the FY10 results*

[2] *Excludes servicing revenue*

[3] *Excludes provision expense*

[4] *2H10 and 1H11 gain on sale margins based off origination volumes rather than application volume*

Source: Company Reports, Compass Point

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

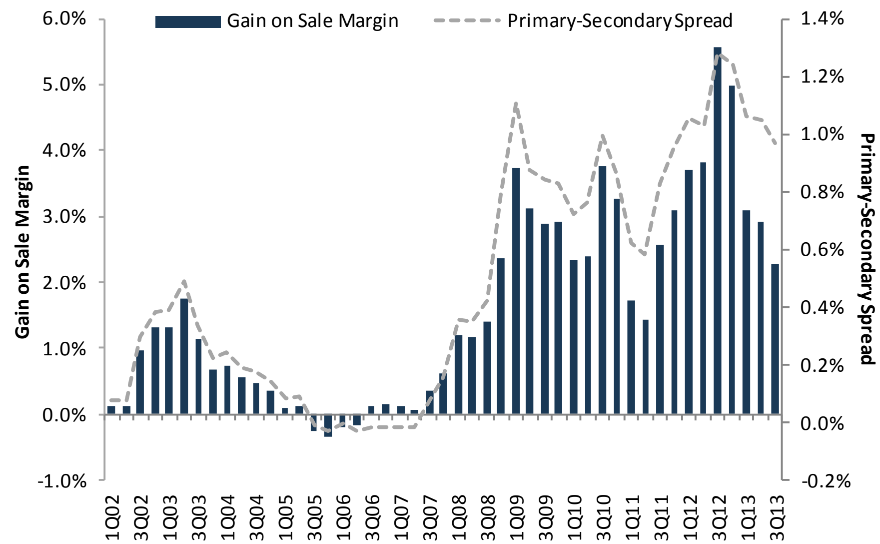
Current Gain on Sale Forecasts: 2H10 vs. 1H11 and 1H13 vs. 2H13E

	Gain on Sale Margin					
($M)	2H10	1H11	%	1H13	2H13E	%
BBT	1.43%	0.71%	-50%	1.47%	1.03%	-30%
EVER[1]	1.01%	0.78%	-23%	2.58%	2.25%	-13%
FBC	1.11%	0.88%	-21%	1.18%	1.01%	-14%
FITB	2.54%	1.77%	-30%	2.15%	1.78%	-17%
NSM[1 2]	2.78%	3.16%	14%	4.19%	3.18%	-24%
PHH	1.61%	1.38%	-14%	3.72%	3.06%	-18%
PNC	2.31%	2.23%	-3%	4.05%	3.37%	-17%
RF	NA	NA	NA	3.02%	2.66%	-12%
STI[3]	2.13%	1.66%	-22%	1.79%	1.50%	-16%
USB[4]	1.22%	0.76%	-38%	1.33%	1.04%	-22%
WFC[3]	2.33%	1.61%	-31%	2.38%	1.86%	-22%
Avg Decline			**-22%**			**-19%**

[1] *2H10 figures are based on FY10 results in which revenue and originations are calculated by taking 50% of the FY10 results*
[2] *Excludes servicing revenue*
[3] *Excludes provision expense*
[4] *2H10 and 1H11 gain on sale margins based off origination volumes rather than application volume*

Source: Company Reports, Compass Point

Compass Point Gain on Sale Index (2002-Present, Quarterly Average)



Source: Bankrate, Bloomberg, FHFA, Compass Point

If we look at historical trends, gain on sale margins still remain elevated compared to the 2002-2007 time period. Over the past three years, the main driver of gain on sale margins (primary-secondary spread) has been at 0.97% compared to average spread of 0.14% between 2002 and 2007. Now, if we were to adjust the spread for higher g-fees (roughly 34 bps higher), the spread now compared to 2002-2007 is 0.63%. Finally, the profitability of servicing has come down significantly and caused MSR valuations to drop. This has lead to lower MSR capitalizations, which are one of the biggest drivers of margins. Prior to the start of the financial crisis, in some cases, it would only cost banks 3 bps to service a performing loan and they could capitalize MSRs in the 130-150 bp range. Also, there was a huge market for non-agency originations with much wider margins than those realized in the agency market. Currently, the GSEs' account for over 85% market share compared to roughly 40% during the housing boom.

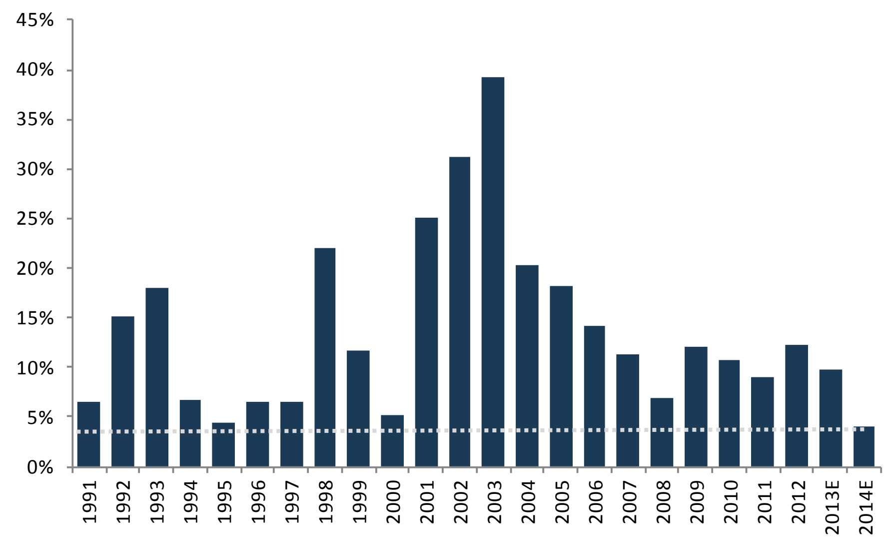
Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

What Happens in 2014?

The market will be transforming from a refinance-dominated market to purchase-dominated market. We expect to see a big decline in volume in the second half of the year, followed by a more stable, albeit smaller, market for the next couple of years if rates were to remain relatively benign. Purchase volume has not been the dominate source of origination volume since 1999-2000, when it accounted for roughly 70% of the total market. We would favor mortgage originators who tend to originate more purchase volume versus refinance volume in this market.

If we are to look at the forecasts from Freddie, Fannie and MBA, they estimate refinance volumes will reach $1,159B during 2014. This would be the lowest level of originations in any given year since 2000, when refinance volumes represented 21% of all originations and only 5.1% of all mortgage debt refinanced. **We would also point out the refinance volumes forecasted for 2014 represent the lowest amount of refinance volume as a percentage of total mortgage debt outstanding (4.0%) in the last 23 years.**

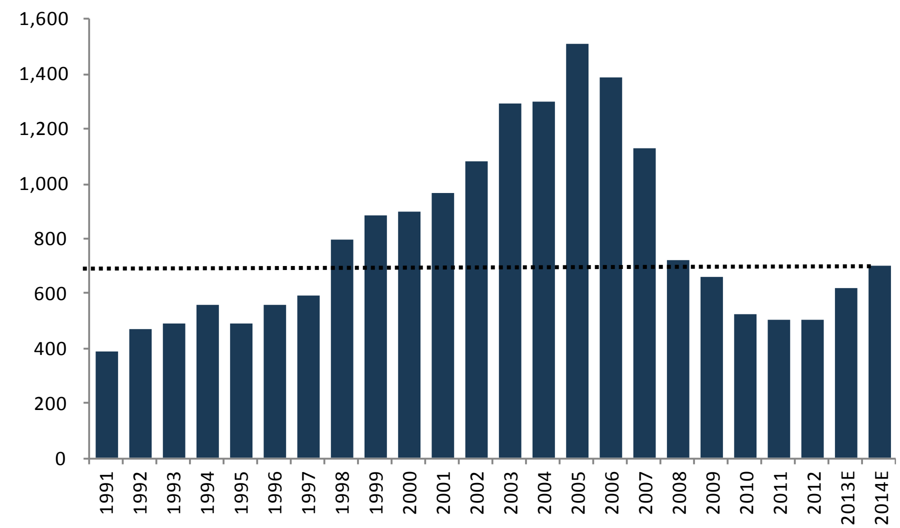
Refinance Originations as % of Mortgage Debt Outstanding



Source: MBA, Freddie Mac, Federal Reserve, Compass Point

The lowest level of refinances as a percentage of mortgage debt outstanding in any year since 1991 was in 1995, when 4.5% of all mortgage debt refinanced. If 2014 turns out to equal 1995, $444B would refinance compared to the $388B forecasted by the MBA. We do not see this scenario playing out unless mortgage rates were to rise above 5.0%, in which case, HARP volumes would dry up. Currently HARP originations account for about 35% of all refinance originations and borrowers with these types of loans still have an economic incentive to refinance with the mortgage rates on 30 year fixed mortgages near 4.5%. Meanwhile, an increasing number of borrowers are "in-the-money" as home prices rise. This should provide a tailwind to refinances and overall purchase volumes.

Purchase Origination Historical and Forecast ($B)



Source: MBA, Freddie Mac, Federal Reserve, Compass Point

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

Mortgage originators that tend to have a larger share of their originations derived from the purchase market will tend to be more resilient to the decline in overall volumes. These lenders should see slightly lower volume declines and perhaps even see gains in 2014 if the purchase market were to exceed expectations. We would note the servicers, NSM and WAC, have a large amount of HARP-eligible borrowers that could continue to refinance if mortgage rates were to remain loser to 4.5% than 5.0%.

Refinance v. Purchase Mix for Top Originators

2Q13	Refinance	Purchase
RF	47%	53%
WFC	54%	46%
BBT	56%	44%
USB	59%	41%
PHH	62%	38%
STI	66%	34%
EVER	68%	32%
FBC	71%	29%
PNC	72%	28%
NSM*	75%	25%
FITB	76%	24%
WAC*	88%	12%
Industry	**67%**	**33%**

**Estimate*

***PMT/PFSI not disclosed*

Source: Company Reports, Compass Point

2014 Origination forecasts could prove conservative

If we were to assume that 5.0% of all the mortgages outstanding refinance ($9.9T x 5% = $490B) and the consensus forecast for purchase originations holds true, total mortgage originations in 2014 would be closer to $1.3 trillion rather than the $1.1 trillion forecasted by the MBA. If the industry produced $1.3 trillion of mortgage originations in 2014, it would represent the LOWEST amount of originations in the past 14 years.

Considering the pickup in the housing market and the potential for credit standards to loosen, we believe origination volumes are likely to bottom in 2014. We expect credit availability to increase once the final rules for Qualified Mortgages (QM) and Qualified Residential Mortgages (QRM) go into place in early 2014. Many banks waiting to deploy capital to the mortgage market can now effectively design products that fit within the rules and meet the required returns to make it worthwhile. This should support an expansion of purchase origination volume. If purchase volumes were to continue increasing at the same pace as the past year and refinance volumes remained at 5% of total mortgage credit outstanding, total originations could reach $1.4-1.5 trillion in 2015.

Over a longer period of time, it is possible this could ultimately lead to a more stable mortgage market for participants and potentially higher valuations than the 7-10x EPS the stocks have traditionally garnered. However, we will need to see this play out over several quarters, if not years.

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

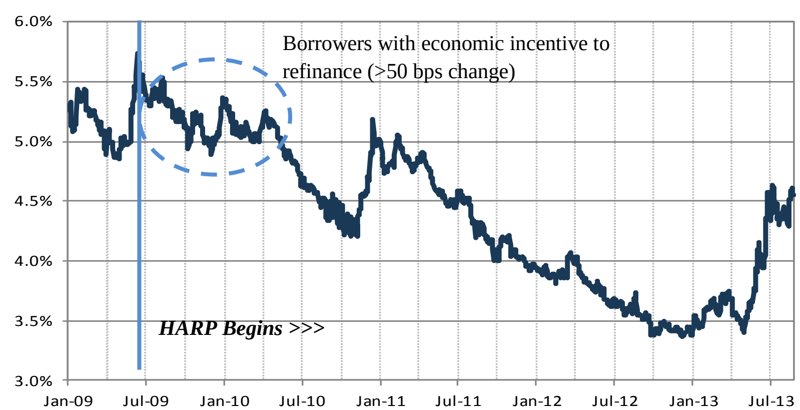
Could HARP Date Extension be Meaningful?

It is often assumed that an extension or outright removal of the eligibility date for HARP borrowers would cause a big wave of HARP refinances. We believe a change in eligibility date would have little to no impact considering: (1) prevailing mortgages rates are much closer to rates when the program started and (2) many of the borrowers who purchased a home during late 2009/early 2010 have equity gains. **We estimate the maximum amount of borrowers who would be newly eligible for a HARP refinance and have an economic incentive to refinance to be $102B, of which we estimate less than $30B would actually participate.**

#1 Potential new HARP-eligible borrowers: HARP "re-refinances"

With the prevailing mortgage rates hanging near 4.5%, a borrower would need to have a mortgage rate at least above 5.0% to justify paying the closing costs on a refinance. If we look at the prevailing mortgage rates since HARP was active, the time period between June 2009 and April 2010 was the only time where mortgage rates remained above 5.0%. Per the FHFA, 322,039 HARP refis occurred during this period. Assuming an $180,000 average mortgage, we estimate the total potential HARP-eligible UPB that would refinance is approximately $58B. However, a considerable amount of these borrowers may have an LTV below 80% given the 17% national home price appreciation since 2Q09 (per NAR) and the participation rates on government programs tends to be well below 50%.

30Y Fixed Mortgage Rates



Source: Bankrate, Bloomberg, Compass Point

#2 Potential new HARP-eligible borrowers: purchases in late 2009/early 2010

To estimate the potential new HARP-eligible borrowers whom completed new purchases in late 2009/early 2010, we used the following methodology:

1) Calculated the home price change (HPI) by state between 2Q09 to 2Q13.
2) Estimated the origination market share by state for FY09 using data from the Home Mortgage Disclosure Act (HMDA).
3) Determined purchase originations between 2Q09 and 2Q10 (when prevailing rates were above 5%) using MBA and GSE estimates. We only included 50% of the 2Q09 originations since HARP became effective in June 2009.
4) Multiplied the market share from the HDMA data by the total estimated purchase originations, assuming 50% of the purchase originations within 5% HPI were above water and would not utilize HARP.
5) Finally, we only included those states with negative percentage changes in HPI between 2Q09 to 2Q13 (according to the NAR).

Based on this methodology, we estimate the potential new HARP-eligible borrowers whom completed new purchases in late 2009/early 2010 to be $44B; however, assuming an additional 5% increase in HPI would drop our estimate down to just $2B.

Potential New HARP-Eligible Borrowers: Purchases in Late 2009/Early 2010

	HPI % Change			HMDA Originations		Purchase Originations		Sensitivity Analysis**	
($B)	2Q09-2Q13	+5%	+10%	FY09	Share	2Q09-2Q10*	Adjusted**	+5%	+10%
CT	-2.0%	2.9%	7.8%	$29	1.6%	$11.5	$5.8		
IL	-1.4%	3.6%	8.5%	$84	4.8%	$33.8	$16.9		
NM	-7.0%	-2.4%	2.3%	$9	0.5%	$3.8	$3.8	$1.9	
NC	-2.3%	1.1%	4.6%	$58	3.3%	$23.2	$11.6		
OR	-2.9%	0.3%	3.5%	$28	1.6%	$11.4	$5.7		
National	**16.8%**	**22.7%**	**28.5%**	**$1,762**	**100.0%**	**$708.9**	**$43.7**	**$1.9**	**$0.0**

** Includes 50% of the 2Q09 originations and assumes the same market share as the HMDA originations*
*** Assumes 50% of purchase originations if HPI % change is within -5%*

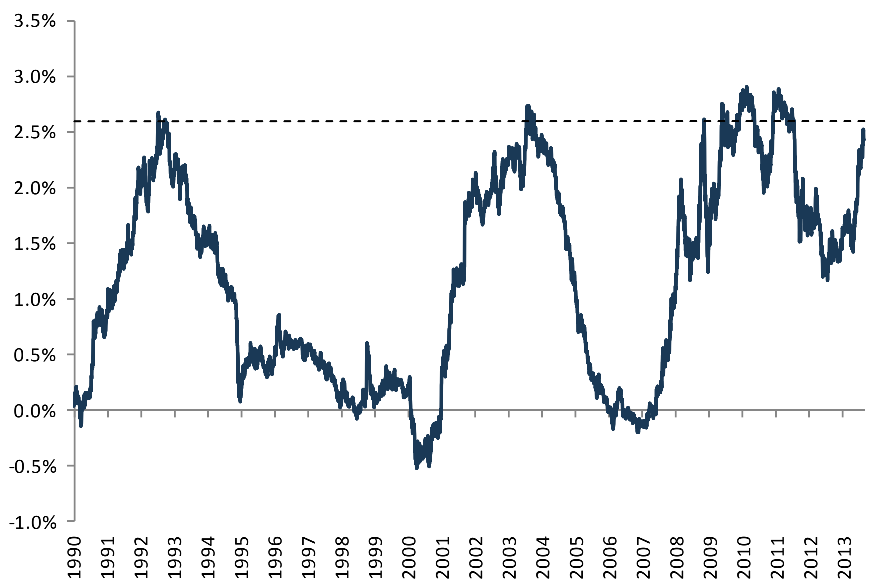
Source: Inside Mortgage Finance, NAR, MBA, Fannie Mae, Freddie Mac, Compass Point

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

Biggest Risk: Mortgage Rates Above 5%

The one thing that could origination volumes to fall below $1.2 trillion would be if mortgages rates were to climb materially above 5%. In this case, refinance volumes (including HARP-eligible loans) would grind to a halt and purchase volume growth could be curtailed. However, we believe it is more likely than not, that mortgage rates would stay at or below 5% through at least the middle of 2014. As of right now, the yield curve is reaching its steepest level recorded in the past 25 years (as measured by the 2-10 spread). At the same time, there is little expectation in the market for the Fed to increase the short end of the yield curve before the end of 2014, especially with some of the recent data indicating a slight slowdown in housing. Meanwhile, the spread between agency MBS yields and 10Y Treasuries continues to contract (now near 80 bps).

2-10Y Treasury Yield Spread (1990-2013)

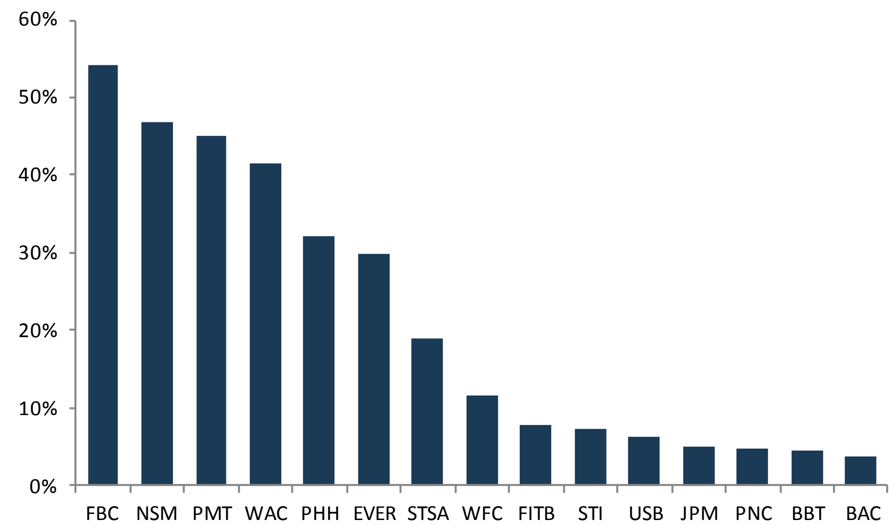


Source: Treasury, Bloomberg, Compass Point

Who is Most Levered to Gain on Sale?

We expect a significant drop in margins going forward, but we have already taken a very conservative approach in our numbers. On average, we have a 19% drop in gain on sale margin in our models from 1H13 to 2H13. Also, if we see rates move higher or prepayment speeds start to slow, mortgage servicing rights could mark higher, providing a lift to total mortgage banking revenue. However, we would emphasize caution with those companies who are most exposed to a continuation of gain on sale margins remaining near current levels to justify earnings expectations.

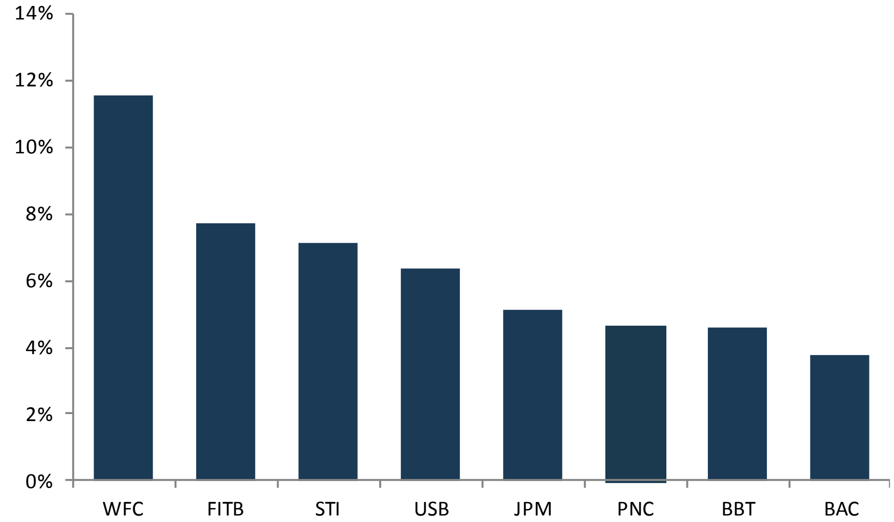
Production Revenue as % of Total Revenue – 2Q13



Source: Company Reports, Compass Point

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

Production Revenue as % of Total Revenue for Large Banks – 2Q13



Source: Company Reports, Compass Point

Appendix 1: Gain on Sale Economics 101

Gain on sale margins vary tremendously from company to company depending on a host of factors, including: (1) the difference between the rates the company funds a mortgage and sells into the market (company-level primary-secondary spread), (2) type of mortgages sold (Fixed, ARM, 30Y, 15Y, etc), (3) valuation of MSR capitalized, (4) hedging results, (5) mix of retail, correspondent, and wholesale originations, (6) mark-to-market of loans in warehouse and several other factors. Also, many companies will include/exclude certain expenses associated with the origination of a mortgage. Hence, it is important to look at trends on the company-by-company level in order to forecast gain on sale margins rather than the market as a whole.

The basic calculation of gain on sale margin (excluding expenses) assumes a mortgage is originated at the going rate in the market, a guarantee fee is paid to the GSEs, servicing fees are paid to the mortgage servicer, and the mortgage sold into the secondary market. The difference between these rates, fees and the effective duration of the mortgage in the secondary market results in a price in which a pool of mortgages could be sold. The fees and other costs associated with originating that loan could be excluded from this calculation.

The following table is for illustrative purposes only and presents a very basic view on the economics of originating a mortgage. Mortgage originators will also take into account excess servicing strips, best execution on nearest TBA pricing, pipeline values, hedging gains/losses and other items when calculating their true gain on sale margin.

Gain on Sale Economics 101

Inputs	3Q13 Avg	2Q13 Avg	2005-2007	Notes
Mortgage rates	**4.44%**	**3.78%**	**5.77%**	primary rate
Guarantee-fee	0.52%	0.52%	0.18%	paid to GSE
Servicing fee	0.25%	0.25%	0.25%	paid to servicer
Net Yield	3.67%	3.01%	5.34%	
MBS yield	**3.47%**	**2.74%**	**5.75%**	yield in MBS market
Net Spread	**0.20%**	**0.27%**	**-0.41%**	
Duration (years)	7.3	7.6	3.9	mortgage duration
Secondary Market Price	$1,012.87	$1,018.40	$985.58	price of bond in market
Face Value	$1,000.00	$1,000.00	$1,000.00	original value of mortgage
Priced-in Margin	1.29%	1.84%	-1.44%	diff between secondary $ and mortgage balance
Capitalization of MSR	1.00%	1.00%	1.50%	initial value of MSR created (non-cash)
Total Gain on Sale	**2.29%**	**2.84%**	**0.06%**	
Other expenses/income to consider:	**bps**			
Broker compensation	0.75-1.25%			cost to acquire loan from bank/broker
Cost to originate	0.50-1.50%			commissions, fees, third-party vendors
Financing costs	0.05-0.50%			interest expense of warehouse facility/deposits
Fee income	0.10-0.80%			application fees, etc.
Float income	0.01-0.10%			interest income from loan before loan is sold in mkt

Source: Bankrate, Bloomberg, FHFA, Compass Point

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

Appendix 2: Gain on Sale Margins

Gain on Sale Margins for Top Mortgage Originators (2010-2Q13)

Ticker	FY10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
BAC	2.07%	1.18%	2.04%	2.43%	2.32%	6.09%	5.01%	4.65%	4.58%	3.41%	3.40%
BBT	1.23%	0.64%	0.85%	1.41%	1.26%	1.68%	2.12%	2.41%	2.29%	1.65%	1.31%
EVER	1.01%	1.10%	0.49%	1.36%	1.69%	1.97%	2.88%	3.61%	2.95%	3.03%	2.16%
FBC	1.12%	0.86%	0.91%	1.53%	1.02%	1.89%	1.66%	2.42%	1.53%	1.07%	1.30%
FITB	2.41%	1.55%	2.06%	2.64%	2.14%	2.72%	3.10%	3.90%	3.41%	2.30%	2.00%
JPM	1.73%	1.31%	1.50%	2.19%	1.43%	2.72%	2.14%	2.33%	1.83%	0.96%	1.16%
NSM	2.78%	3.15%	3.16%	3.34%	3.16%	5.92%	5.67%	7.66%	5.62%	5.44%	3.98%
NYCB	2.40%	1.55%	2.06%	2.64%	2.14%	2.72%	3.10%	3.90%	3.41%	2.30%	2.00%
PHH	1.63%	1.17%	1.59%	1.78%	1.91%	3.35%	3.08%	3.80%	3.98%	3.77%	3.66%
PNC	2.20%	2.63%	2.00%	3.96%	3.67%	4.17%	4.89%	5.68%	4.87%	4.07%	4.04%
RF	NA	NA	NA	NA	NA	NA	3.34%	3.82%	3.39%	3.24%	2.81%
STI	1.99%	1.37%	2.00%	2.95%	2.24%	3.10%	3.13%	3.78%	3.16%	1.96%	1.63%
STSA	2.40%	2.48%	2.21%	2.66%	2.45%	2.34%	3.07%	3.68%	3.60%	1.63%	2.35%
USB	1.18%	0.60%	1.00%	1.49%	1.31%	1.95%	1.86%	2.22%	1.87%	1.36%	1.31%
WFC	2.08%	1.67%	1.54%	1.34%	1.90%	2.36%	2.20%	2.21%	2.56%	2.56%	2.21%
Median	***2.03%***	***1.34%***	***1.80%***	***2.31%***	***2.03%***	***2.72%***	***3.08%***	***3.78%***	***3.39%***	***2.30%***	***2.16%***

Source: Company Reports, Compass Point

We used stated gain on sale margins where applicable. If the gain on sale was not stated or the calculation was not stated, we used mortgage production revenue or gain on sale revenue divided by total residential mortgage originations to derive the gain on sale margin. HARP volume was stated by the companies during conference calls or disclosed in filings.

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

Appendix 3: Potential New HARP-Eligible Borrowers - Purchases

	HPI % Change			HMDA Originations		Purchase Originations		Sensitivity Analysis**	
($B)	2Q09-2Q13	+5%	+10%	FY09	Share	2Q09-2Q10*	Adjusted**	+5%	+10%
AL	1.2%	4.3%	7.4%	$18.7	1.1%	$7.5			
AK	NA	NA	NA	$4.8	0.3%	$1.9			
AZ	19.2%	25.2%	31.1%	$44.3	2.5%	$17.8			
AR	9.8%	15.3%	20.8%	$9.7	0.6%	$3.9			
CA	41.4%	48.5%	55.6%	$300.8	17.1%	$121.0			
CO	23.6%	29.8%	36.0%	$46.3	2.6%	$18.6			
CT	-2.0%	2.9%	7.8%	$29	1.6%	$11.5	$5.8		
DC	26.3%	32.6%	38.9%	$7	0.4%	$2.7			
DE	0.5%	5.5%	10.5%	$7	0.4%	$2.9			
FL	9.8%	13.3%	16.8%	$73	4.2%	$29.5			
GA	12.8%	18.4%	24.1%	$55	3.1%	$22.2			
HI	15.9%	21.7%	27.5%	$13	0.7%	$5.2			
ID	5.0%	10.3%	15.6%	$9	0.5%	$3.8			
IL	-1.4%	3.6%	8.5%	$84	4.8%	$33.8	$16.9		
IN	14.2%	19.9%	25.6%	$24	1.3%	$9.5			
IA	14.0%	19.7%	25.4%	$13	0.7%	$5.1			
KS	5.5%	10.7%	16.0%	$15	0.8%	$6.0			
KY	8.3%	13.7%	19.1%	$13	0.7%	$5.2			
LA	6.4%	11.7%	17.1%	$15	0.8%	$5.9			
ME	11.5%	17.0%	22.6%	$7	0.4%	$2.8			
MD	2.1%	7.2%	12.3%	$54	3.0%	$21.6			
MA	4.6%	9.9%	15.1%	$55	3.1%	$22.2			
MI	19.8%	23.2%	26.7%	$35	2.0%	$14.2			
MN	12.3%	18.0%	23.6%	$29	1.6%	$11.6			
MS	0.3%	5.3%	10.3%	$9	0.5%	$3.7			
MO	2.3%	7.4%	12.5%	$32	1.8%	$13.0			
MT	NA	NA	NA	$6	0.3%	$2.4			
NE	10.7%	16.2%	21.7%	$7	0.4%	$2.9			
NV	17.7%	23.5%	29.4%	$17	0.9%	$6.7			
NH	9.2%	14.7%	20.2%	$9	0.5%	$3.6			
NJ	4.2%	9.4%	14.6%	$68	3.8%	$27.2			
NM	-7.0%	-2.4%	2.3%	$9	0.5%	$3.8	$3.8	$1.9	
NY	9.6%	15.1%	20.6%	$73	4.1%	$29.3			
NC	-2.3%	1.1%	4.6%	$58	3.3%	$23.2	$11.6		
ND	27.2%	33.5%	39.9%	$3	0.1%	$1.1			
OH	11.9%	16.2%	20.5%	$41	2.3%	$16.6			
OK	8.6%	14.1%	19.5%	$13	0.7%	$5.2			
OR	-2.9%	0.3%	3.5%	$28	1.6%	$11.4	$5.7		
PA	4.1%	8.1%	12.1%	$61	3.5%	$24.6			
PR	NA	NA	NA	$8	0.4%	$3.2			
RI	8.4%	13.9%	19.3%	$6	0.4%	$2.5			
SC	6.0%	11.3%	16.6%	$28	1.6%	$11.2			
SD	8.4%	13.8%	19.3%	$4	0.2%	$1.8			
TN	10.0%	15.5%	21.0%	$31	1.8%	$12.6			
TX	14.7%	20.5%	26.2%	$85	4.8%	$34.4			
UT	NA	NA	NA	$25	1.4%	$10.1			
VT	15.4%	21.2%	26.9%	$4	0.2%	$1.7			
VA	6.3%	9.9%	13.6%	$65	3.7%	$26.2			
WA	4.8%	10.0%	15.3%	$65	3.7%	$26.2			
WV	0.6%	5.6%	10.6%	$6	0.3%	$2.2			
WI	6.0%	11.3%	16.6%	$35	2.0%	$14.3			
WY	NA	NA	NA	$4	0.2%	$1.4			
National	**16.8%**	**22.7%**	**28.5%**	**$1,762**	**100.0%**	**$708.9**	**$43.7**	**$1.9**	**$0.0**

** Includes 50% of the 2Q09 originations and assumes the same market share as the HMDA originations*

*** Assumes 50% of purchase originations if HPI % change is within -5%*

Source: Inside Mortgage Finance, NAR, MBA, Fannie Mae, Freddie Mac, Compass Point

Kevin Barker | 202.534.1398 | kbarker@compasspointllc.com
Steven Seperson | 202.534.1387 | sseperson@compasspointllc.com

Important Disclosures

Analyst Certification

I, Kevin Barker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issues. I further certify that I have not received direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Coverage Universe			Investment Banking Relationships		
Rating	Number	Percent	Rating	Number	Percent
Buy	54	44	Buy	14	26
Neutral	64	52	Neutral	1	2
Sell	6	5	Sell	1	17
Total	124	100%	Total	16	100%

*Percentage of Investment Banking Clients in Coverage Universe by Rating

Ownership and Material Conflicts of Interest

Within the previous 12 months, Compass Point has received compensation for investment banking services from the following companies: EverBank Financial Corp, PennyMac Mortgage Investment Trust and Walter Investment Corp..

During the 12-month period preceding the date of distribution of this research report, the following companies was (were) a client (clients) of Compass Point: EverBank Financial Corp, PennyMac Mortgage Investment Trust and Walter Investment Corp.. The type of services provided were investment banking.

Ratings, Coverage Groups, and Views and Related Definitions

The information and rating included in this report represent the long-term view as described more fully below. The analyst may have different views regarding short-term trading strategies with respect to the stocks covered by the rating, options on such stocks, and/or other securities or financial instruments issued by the subject company(ies). Our brokers and analysts may make recommendations to their clients that are contrary to the recommendations contained in this research report. Such recommendations or investment decisions are based on the particular investment strategies, risk tolerances, and other investment factors of that particular client or affiliate. From time to time, Compass Point and its respective directors, officers, employees, or members of their immediate families may have a long or short position in the securities or other financial instruments mentioned in this report.

Buy (B), Neutral (N), Sell (S) - Analysts recommend stocks as Buys or Sells for inclusion on the firm's recommended list. Being assigned a Buy or Sell on the recommended list is determined by a stock's absolute total rate of return potential, which includes potential or projected dividends. Any stock not assigned as a Buy or a Sell is deemed Neutral. A Buy (B) represents a total rate of return potential of 15% or greater on a 12-month horizon. A Neutral (N) represents a total rate of return of -15% to +15% on a 12-month horizon. A Sell (S) represents a total rate of return at or below -15% on a 12-month horizon. Conviction Buy and Sell lists represent investment recommendations focused on either the size of the potential return, the likelihood of the realization of the return, or the time to realization of the return.

Return potential represents potential and projected dividends and the price differential between the current share price and the price target expected on a 12-month time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Recommended List membership.

Not Rated (NR): The investment rating and target price have been removed pursuant to Compass Point policy when Compass Point is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances. Rating Suspended (RS): Compass Point Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price Compass Point has suspended coverage of this company. Not Covered (NC): Compass Point does not cover this company. Not Available or Not Applicable (NA): The information is not available for display or is not applicable. Not Meaningful (NM): The information is not meaningful and is therefore excluded.

Global Disclaimer

Compass Point Research & Trading, LLC expects to receive or intends to seek compensation for investment banking services from the subject company(ies) in the next 3 months.

The research analyst(s) named in the certification above receives compensation based upon various factors, including, but not limited to, the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues generated by Compass Point Research & Trading, LLC's investment banking activities.

This report is based upon public information that Compass Point Research & Trading, LLC and the research analyst named in the attestation above assume to be correct.

Assumptions, opinions, forecasts, and estimates constitute the research analyst's judgment as of the date of this material and are subject to change without notice. The research analyst's judgments may be wrong.

Neither Compass Point Research & Trading, LLC nor its affiliates, nor the research analyst, are responsible for any errors, omissions, or results obtained from the use of this information.

Past performance is not necessarily indicative of future results.

The securities and/or financial instruments mentioned in this research report, and the trading strategies related thereto, may not be suitable for all investors. You must consider your specific investment goals and objectives prior to transacting in any security or financial instrument. Consult with your financial advisor before making any transactions or investments.

This report constitutes a compendium report (covers six or more subject companies). As such, Compass Point Research & Trading, LLC, chooses to provide certain disclosures for the subject companies by reference. To access such disclosures, clients may email a request to research@compasspointllc.com, or may write the Compass Point Research & Trading, LLC Research Department at Compass Point Research & Trading, LLC, 3000 K Street NW, Suite 340, Washington DC, 20007. 202.540.7300