

ING Agency Mortgage Talking Points

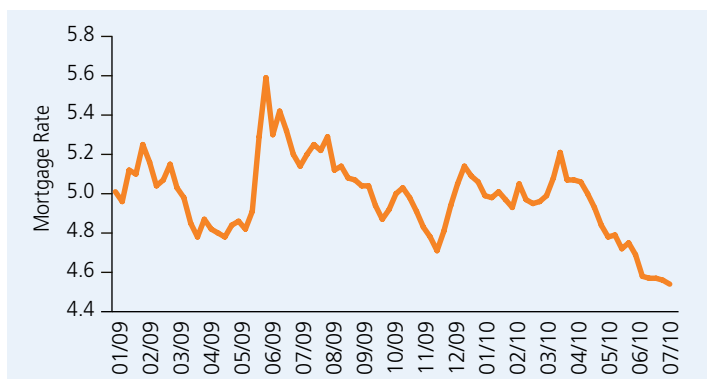
Mortgage Yields

The downward trend in mortgage yields continued in July as the current coupon yield for 30-year fixed-rate mortgage bonds fell 30bps to 3.45%. Mortgage yields began the year at 4.56% only to fall 111bps over the subsequent 7 months. Mortgage prices, which are inversely related to yields, have been rising as investors' flock to government protected fixed income instruments.

Ginnie Mae mortgage bonds with their explicit government guarantee outperformed other conventional Agency mortgages backed by Fannie Mae and Freddie Mac in the flight-to-quality trade.

The following chart shows the rate history for primary mortgages which is the rate available to home buyers or those wishing to refinance.

U.S. 30yr Fixed-Rate Mortgage Yield FHLMC Primary Mortgage Market Survey January 8, 2009 to July 29, 2010



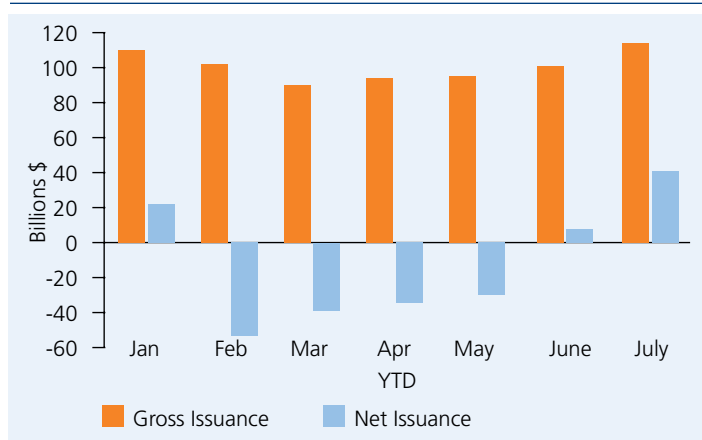
Source: www.freddiemac.com

Important Market Drivers

Agency Mortgage Issuance in 2010

With nearly all government buyouts concluded in June, net supply was able to post a positive result in July for only the third time this year. However, borrowers continue to show signs of burnout (borrowers are less influenced by mortgage rates) as July's prepayments remain subdued despite record low mortgage rates. The lack of MBS supply resulting from GSE buyouts and slow home sales have kept mortgage yields relatively tight to U.S. Treasuries on a historical basis.

Gross vs. Net Issuance 2010



Source: embs.com & Bloomberg

GNMA Outperformance; Then and Now

The GNMA component of the Barclay's Aggregate MBS Index has posted an impressive YTD outperformance of 1.17% versus the aggregate Index. Three primary contributors to this outperformance include 0% GNMA risk weighting, GSE Buyout Programs, and uncertainty surrounding the future of the GSE's.

GNMA MBS have enjoyed superior sponsorship versus FNMA and FHLMC primarily due to its 0% risk-based capital requirement. Banks are required to hold capital against the assets they own, thus, the more risky the asset, the more capital required. With the explicit guarantee of the U.S. Government, GNMA bonds enjoy the same 0% risk weighting as Treasuries while FNMA and FHLMC currently possess 20% risk weightings. The lower capital requirement in tandem with the explicit government guarantee has kept demand robust.

GSE Buyout Programs initiated in February and ending in June have weighed on FNMA and FHLMC performance. With almost the entire universe of MBS at a premium, the accelerated buyouts of GSE MBS have resulted in significant premium amortization. The accelerated premium amortization provided GNMA's with 25bps of outperformance versus their GSE counterparts in the four months ending June 2010.

With the future of the GSE's still being debated, we expect GNMA MBS to maintain its outperformance in the near term. Until the government provides clarity regarding GSE reform, both domestic and overseas demand will continue to favor the explicit guarantee of

GNMA Outperformance; Then and Now *continued*

GNMA collateral. Currently, the political risk and monetary cost of announcing a significant GSE transformation appears to outweigh any long-term benefit to the economy. Thus, with a limited amount of supply and favorable demand technicals we do not expect GNMA MBS to surrender its outperformance in the near-term.

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