

EXHIBIT B



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Bank of America Settlement—Impact on Securities Valuation

Summary

There are two major aspects of the Bank of America settlement on legacy Countrywide securities: the settlement payment itself and the changes in servicing practices that are mandated by the settlement. We argue that, even if the settlement does not go through, some of the changes in servicing practices are likely to be well underway. In this article, we look at the impact of each of these changes separately and then jointly on the value of the Countrywide securities that comprise the Covered Trusts. The market seems to be treating all securities very similarly; we find the impact can be very different from security to security.

There are two major aspects of the Bank of America Settlement on legacy Countrywide assets: the settlement payment itself, and the changes in servicing practices. Our first article on this topic (6/30/2011 *Amherst Mortgage Insight* "Amherst Analysis: The Bank of America Settlement") outlined the settlement payments and how they will be calculated, plus the changes in servicing practices. We now look at the impact of this settlement on the value of the securities.

We analyze the price changes on a range of securities due to either: (1) the recovery payments, (2) the impact of changes in servicer behavior, or (3) both. Even if the settlement payment does not go through, we make the case that some of the changes in servicer behavior are "*fait accompli*." While we have presented results on the price impact by type of bond (senior, mezzanine, subordinate) and by shelf, the impact will vary considerably across securities. We find that in the senior bonds, the subprime sector should benefit far more than prime and Alt-A; in the mezzanine bonds, Alt-A is the most reactive sector; and in the subordinate bonds, prime is the most reactive. We show the distribution of price changes; they are quite wide (we definitely welcome, and encourage, investors to contact their Amherst representative for the impact on specific securities of particular interest; we've got the analytics and the numbers!).

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This bond-specific information should be critical to investors. Most Countrywide senior Alt-A and subprime securities are up 2-3 points on the settlement news. But there has been little differentiation across securities; some of these bonds should really be up substantially more, while some should have reacted less. Moreover, even if the monetary settlement does not go through, we make the case that Bank of America servicing on legacy Countrywide Securities will begin to look more like other servicers, as much of the sub-servicing will have been contracted for prior to settlement approval. This alone will improve the value of the securities.

I. Bank of America Settlement—Payment Component

The Bank of America Settlement has two main components—a payment amount that will be accounted for as a subsequent recovery, and the servicing improvements. Assuming that the settlement is approved as proposed, the payment will be divided among the covered trusts in relationship to the losses that have been borne, plus those that are expected to be borne, by these trusts. For the purposes of this analysis, we assume that the already negotiated \$8.5 billion settlement is paid a year from now. More specifically, we are assuming the settlement is approved 8 months from now, and as per the documents, the Trustee's experts will have 90 days from the settlement agreement "Approval Date" to determine each trust's allocable share of the settlement payment, with the payment made no more than 30 days later.

As we mentioned in our previous article on the topic, approval should not be taken for granted. The hearing on the settlement is currently scheduled for November 17, 2011. Pursuant to the process contemplated by the order to show "cause", any Certificate holder or any other person potentially interested in the covered trusts may object to any aspect of the settlement and request to be heard at the hearing by submitting a written statement by October 2011; provided that objections to the settlement must be filed with the court and served upon the Trustee's counsel by August 30, 2011. So far, a number of parties have filed motions in respect to the proposed settlement (Walnut Place, the Public Pension Fund Committee, TM1, and a group of 6 Federal Home Loan Banks) and there have been numerous calls for information on how the \$8.5 billion was calculated. We would also expect investors to be pressing for details on how exactly the expected losses are to be calculated, as this will govern the allocation of the \$8.5 billion settlement among the trusts.

It is important to realize that judicial approval of the settlement is being done through Article 77 of New York State law, which, in essence, allows a trustee to seek a judicial endorsement of certain trust-related decisions. That is not a typical use of this proceeding, but it can be argued that the settlement addresses 530 different trusts (thus making proceedings of this nature relevant to assess the proposal). A discussion on whether an Article 77 proceeding is appropriate or necessary in this context is well beyond the scope of this article. By using these proceedings, Bank of New York, as Trustee, is essentially saying to the court: "*I believe this settlement is fair—now please bless it.*"

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There are two parts to this approval process. First, the judge must agree that Bank of New York (BONY), as Trustee, has the power to settle these claims (and that is an anticipated avenue of attack for challengers to the proposal). It is very clear that BONY, as Trustee, is charged with enforcing the terms of the Trust. It is less clear that they can settle claims, although there is some precedent. If the judge agrees that BONY can settle claims, BONY need only show that it didn't abuse its discretion, act unreasonably, or otherwise breach its fiduciary duty to the Trust's beneficiaries. It seems that the reason this approval process was selected was, in part because unlike in a class action suit, there are no opt-out provisions; this settlement (in its current form) will bind all covered trust investors.

II. The Bank of America Settlement—Servicing Component

The Bank of America settlement might possibly *not* go through at all; investors might ultimately receive a higher settlement. The settlement might also take much *longer* than our 1-year assumption. However, this settlement comes with a number of servicing changes, some of which will be partially implemented by the time the settlement is approved. In particular, BAC Home Loans Servicing, LP, as Master Servicer, has agreed to move the servicing of high-risk loans to qualified sub-servicers. We believe this set of changes will be fairly far along by the time the settlement is decided (approved, or not approved).

BAC Home Loans Servicing, LP, as Master Servicer (hereafter referred to as Bank of America) has also agreed to improvements in mortgage servicing for loans not in sub-servicing. This includes the benchmarking of timelines from delinquency to foreclosure, and from foreclosure sale or other liquidation event, with an agreed upon set of payments (penalties) from the Master Servicer to the Trusts if timelines are exceeded. The agreement also includes requirements that modification decisions be rendered more quickly, and that loss mitigation alternatives be pursued when the net present value is higher than foreclosure. Finally, Bank of America has agreed to implement a cure program for loans with document exceptions; the Covered Trusts will be reimbursed for any realized losses caused by the inability to liquidate a first lien mortgage as a mortgage, if the covered trust is not made whole by a title insurance policy. Bank of America's benchmarking timelines to industry standards, the payment of penalties, and the reimbursement of realized losses caused by documentation failure are dependent on settlement approval. However, it is likely that Bank of America begins to implement changes to speed up liquidation timelines and to correct documentation exceptions. By doing so, when the settlement is approved, Bank of America is in a position to avoid these penalties. The improvements in modification timing and loss mitigation are not dependent on settlement approval.

We believe that Bank of America's actions to move the servicing of high-risk loans to qualified sub-servicing firms, at Bank of America's expense, are particularly significant. The agreement stated that Bank of America and the group of 22 Institutional Investors that signed the agreement must come up with a list of 8-10 sub-servicers for these high-risk loans within 30 days of the document signing.

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Only one sub-servicer can be assigned to each Covered Trust, and each sub-servicer will have no more than 30,000 loans from the Covered Trusts at one time. The consensus view in the market is that the list has been drawn up. Within 45 days of receiving this list, BONY as Trustee, after consulting with an expert of its choice, may object to any of the sub-servicers on the Agreed List, or reduce the number of loans that a sub-servicer may service to <30,000. The grounds for BONY to object to selected sub-servicers is very explicit.

High-risk loans include:

- (1) Mortgage loans 45+ days past due without right party contact (*i.e.*, the Master Servicer has not succeeded in speaking with the borrower about resolution of a delinquency)
- (2) Mortgage loans 60+ days past due that have been delinquent more than once in any rolling 12-month period
- (3) Mortgage loans 90+ days past due that have not been in the foreclosure process for >90 days and that are not actively performing on trial modification or in the underwriting process of modification
- (4) Mortgage loans in the foreclosure process that do not yet have a scheduled sale date
- (5) Mortgage loans where the borrower has declared bankruptcy, regardless of days past due

We do not have the information to compute the number of "high-risk" loans using the negotiated definition; we did compute there were 256,000 loans in Covered Trusts that are 60+ days delinquent; some will be liquidated prior to the transfer date. If each sub-servicer can really board 30,000 loans, 8-10 sub-servicers should provide sufficient capacity. And if the borrower makes 12 consecutive monthly payments, the mortgage is then transferred back to the Master Servicer.

After the Trustee (BONY) approves at least 4 sub-servicers, Bank of America, as Master Servicer, will negotiate a servicing contract that includes commercially reasonable terms (including right to terminate the sub-servicer for cause), and then map the computer transfer of mortgage loans with not less than one sub-servicer per quarter, until all sub-servicers on the Approved List are operational. The servicing transfer must be completed within 3 months of the computer mapping for that sub-servicer. (The Master Servicer will not be liable if it is unable to contract with a sub-servicer on commercially reasonable terms.)

We believe that a good part of the servicing transfer will have occurred (or contracts will be in place) by the time the settlement is approved, particularly if approval times are stretched out. Very few of these sub-servicers have the ability to service an additional 30,000 loans without building capacity. We would assume that when a

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sub-servicer contracts, they will require Bank of America to cover any costs involved in the build-out if the contract is not fulfilled.

Section 5(k) of the Settlement Agreement provides that "If Final Court Approval becomes legally impossible, then at such time, neither the Master Servicer nor the Trustee shall have further obligations under subparagraph 5(a) [Sub-servicer selection and assignment] or under subparagraph 5(b) [Subservicing Implementation for High Risk Loans]. While Bank of America does have the theoretical right to end the sub-servicing arrangements if final approval becomes legally impossible, we believe they are unlikely to do so because (1) of contractual arrangements with the sub-servicers, and (2) even if the settlement does not gain quick approval, it is unlikely to become "legally impossible" very quickly.

Bank of America set aside \$4 billion in their Q2 2011 financial statements to cover additional mortgage costs. That included \$100 million in litigation costs, plus an extra \$400 million in servicing and documentation obligations covered (which the initial mapping of loans to the sub-servicers). We also figured that ~\$1.4 billion of the \$4 billion is necessary to cover payments to the sub-servicers. Our calculations are shown in Exhibit 1 (below). Using information on the 512 deals (of the total 530 deals) on which we had complete information (representing 99% of the original balances), we applied the scale of payments in Exhibit E of the Bank of America Settlement Agreement. We assumed that all non-performing loans (NPLs, loans >60+ days past due) were boarded with sub-servicers, as were half of the re-performing loans (RPLs, loans that used to be 60+ days delinquent but no longer are) when they re-default. We assumed that each loan was serviced for 24 months prior to liquidation. Furthermore, we assumed that 90% of the NPLs eventually liquidate, of which 20% go through a short sale, 20% go through a deed-in-lieu, and 60% go through REO liquidation. Modification activity is only paid if the borrower is current for 12 months; we assume that modifications are attempted on 30% of the

Exhibit 1. Estimated Payments to Subservicers

	Subservicer Compensation	Amherst Assumptions
Deal Count	512	512 deals available in CoreLogic database, out of the 530 Covered Trusts
UPB (\$M)	173,899	
NPL Loan Count	256,056	100% NPL loans will be transferred
RPL Loan Count	93,734	50% of RPL loans will re-default and then transferred
Total Loan Count Transferred	302,923	
Projected Loans Liquidate	263,257	90% of NPL and 35% of RPL will liquidate
NPL Balance (\$M)	70,164	
RPL Balance (\$M)	22,570	
Boarding Fee (\$M)	5	\$15/loan electronic boarding 302K loans transferred
Base Fee (\$M)	727	\$100/loan/month assuming 90+ 24 months * 302K loans transferred
Paid-in-Full Fee (\$M)	23	1.50%/UPB subject to min max 2% of NPL and 2% of RPL loans will prepay, totalling 7K loans * \$3235 per loan
Short Sale Fee (\$M) *	145	1.50%/Sales Price, subject to min max 20% of NPL liquidation and 40% for RPL liquidation, totalling 59K loans * \$2456 per loan
Deed in Lieu Fee (\$M)	68	0.50%/UPB subject to min max 20% of NPL and RPL liquidation, totalling 53K loans * \$1295 per loan
REO Redemption Fee (\$M) *	280	1.00%/Sales Price, subject to min max 60% of NPL liquidation and 40% of RPL liquidation, totalling 151K loans * \$1850 per loan
Modification Fee (\$M)	128	1.50%/UPB subject to min max 8% of NPL and 13% of RPL will receive a modification fee, totalling 33K loans * \$3916 per loan
Total of Sub-servicer Fee (\$M)	1,976	

* Short Sale and REO redemption compensation is based on sales price. We used Amherst severity model to estimate sale price

** Countrywide has a higher share of short sales for their liquidations

Source: CoreLogic, Amherst Securities

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NPL borrowers. Overall, 33% of these modifications are successful, suggesting 10% of the borrowers are successfully modified (30% mod attempt x 33% success). Out of the 10% successful modifications, we assume 8% is transferred back to the Master Servicer, receiving a modification fee, and 2% of the loans are considered paid-in-full while serviced by the sub-servicer. The 20% of the loans that is unsuccessfully modified is part of the 90% of the loans that is eventually liquidated.

Similarly, we assume that 50% of the re-performing loans will become non-performing and will be transferred to special servicers; 35% of the RPLs will eventually liquidate (40% short sale, 20% deed-in-lieu and 40% REO liquidation). We assume that modifications will be attempted on 30% of these borrowers, with a 50% success rate. We further assume 13% of RPLs loans will re-perform for 12 months and be transferred back to the Master Servicer, another 2% will be paid in full; the remaining failed modifications (15% of the RPL bucket) is part of the 35% of the RPL bucket that will be liquidated by special servicers.

Valuation Impact Analysis

Now for the good stuff—the settlement’s securities valuation aspect! We examine 4 different scenarios:

- (1) In our *first* scenario (“base case”) transition rates burn out over time while prepayments are constant. We use the Amherst loss timing and severity model with the Countrywide-specific adjustment. This scenario differs from our normal scenario “zero” in that we excluded the impact of modifications and curing (thus our loss estimates are a bit higher, resulting in a lower recovery pay-out per dollar of loss).
- (2) In the *second* scenario (“servicer improvement”) we included the effect of the servicing changes by assuming that Countrywide loans will begin to behave with the same timelines as other servicers, but that recovery settlement does not go through (*i.e.*, we eliminated the very long Countrywide-specific lags). We assume this change is implemented 12 months from now. That will affect both loss timing and severity.
- (3) In the *third* scenario (“recovery”) we include the payment to the trust as a result of the \$8.5 billion settlement. This payment is assumed to be made 12 months from now. We derived this number by first calculating the estimated total losses on each trust. This is done by taking realized losses on each trust and adding future expected losses on each trust from the first scenario. We then allocate the \$8.5 billion *pro rata*, based on estimated total losses of each Trust. Using this set of base case scenarios, each trust is allocated 8% of its estimated total losses.
- (4) The fourth scenario (“servicer improvement and recovery”) assumes that both servicing improvements and recovery proceeds are realized.

We run each CUSIP covered by the settlement through these 4 scenarios. Exhibit 2 (next page) represents how we performed this analysis for one particular deal—CWL 2007-BC2, a typical Countrywide subprime deal (the senior bonds stay sequential

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Exhibit 2: An Example—CWL 2007-BC2

Original UPB (\$M)	Current UPB (\$M)	APL %	RPL %	NPL %	Realized Loss (\$M)	Project Loss (\$M, Base Case)	Total Deal Loss	Total Deal Loss Per Orig %	Total Deal Loss Per UPB %	Total Recovery from Settlement (\$M)	Total Recovery per UPB %	Total Recovery per Total Loss %
650	386	16.78	24.57	58.64	106	297	403	62%	104%	32	8%	8%

Tranche	Current Tranche Balance (\$m)	Base Case					Servicer Improvement					Recovery					Servicer Improvement and Recovery									
		Price (\$)	WAL (Yr)	Tranche WD %	Period of 1st WD	Price	Price Chg (\$)	Price Chg (%)	WAL (Yr)	WAL Chg (Yr)	Tranche WD %	Period of 1st WD	Price	Price Chg (\$)	Price Chg (%)	WAL (Yr)	WAL Chg (Yr)	Tranche WD %	Period of 1st WD	Price	Price Chg (\$)	Price Chg (%)	WAL (Yr)	WAL Chg (Yr)	Tranche WD %	Period of 1st WD
1A	142	30.0	5.69	67	26	31.9	2.0	7%	5.37	(0.3)	64	21	39.8	9.9	33%	5.57	(0.12)	56	28	41.8	11.9	40%	5.25	(0.40)	54	23
2A1	13	97.1	0.53	-	NA	97.1	0.0	0%	0.53	-	-	NA	97.1	0.0	0%	0.52	(0.01)	-	NA	97.1	0.0	0%	0.52	(0.01)	-	NA
2A2	23	75.9	2.65	15	32	77.5	1.6	2%	2.28	(0.4)	14	26	94.3	18.4	24%	1.07	(1.58)	-	NA	94.5	18.5	24%	1.05	(1.60)	-	NA
2A3	78	34.1	6.61	62	32	38.3	4.2	12%	6.02	(0.6)	56	26	47.1	13.0	38%	6.20	(0.41)	46	37	51.4	17.3	51%	5.60	(1.01)	41	31
2A4	34	32.0	10.72	64	32	35.7	3.8	12%	11.15	0.4	58	26	36.9	5.0	16%	11.79	1.07	58	37	41.2	9.3	29%	12.24	1.52	51	31
M1	23	1.4	1.92	100	21	1.3	(0.1)	-7%	1.61	(0.3)	100	18	1.5	0.1	5%	2.36	0.44	100	27	1.7	0.4	25%	1.96	0.04	100	22
M2	27	1.2	1.52	100	16	1.0	(0.2)	-15%	1.33	(0.2)	100	15	1.5	0.3	22%	2.03	0.51	100	22	1.4	0.2	19%	1.68	0.16	100	19
M3	9	1.0	1.22	100	14	0.9	(0.1)	-8%	1.12	(0.1)	100	13	1.6	0.6	59%	1.76	0.54	100	21	1.4	0.4	36%	1.49	0.27	100	18
M4	11	1.1	1.01	100	11	1.1	(0.0)	-2%	0.98	(0.0)	100	11	1.9	0.8	72%	1.48	0.47	100	11	1.6	0.5	47%	1.30	0.29	100	11
M5	12	0.8	0.68	100	6	0.8	0.0	1%	0.68	-	100	6	1.5	0.6	77%	1.04	0.36	100	6	1.3	0.4	52%	0.96	0.28	100	6
M6	6	0.6	0.36	100	3	0.6	-	0%	0.35	(0.0)	100	3	1.1	0.5	89%	0.80	0.44	100	3	0.9	0.3	57%	0.75	0.39	100	3
M7	8	0.3	0.12	100	1	0.3	-	0%	0.12	-	100	1	0.6	0.4	133%	0.63	0.51	100	1	0.5	0.2	70%	0.56	0.44	100	1

Source: CoreLogic, Intex, Amherst Securities

with respect to the allocation of principal; losses are allocated to the senior bonds pro rata, after the subs are written down). The top section of the exhibit shows that the \$386 million in unpaid principal balances on the deal consists of [58.6% NPLs + 24.6% RPLs + 16.8% APLs]. The deal has already realized \$106 million in losses; we project another \$297 million, for total expected loss of \$403 million. In our calculation, the deal receives 8.0% of this, or \$32 million, as a recovery from the settlement.

We took each security in this deal and ran it to a 6% yield in the “base case” to calculate the price. Note that this is a theoretical price, not a market price. We used this methodology to gain an understanding of the relative impact of the settlement for various security types. For example, in the base case, the 2A4 (the last cash flow senior) bond is theoretically priced (to 6% yield) at \$32, with a 10.72 year weighted average life (WAL). If we revert Countrywide’s servicer behavior to the norm (servicer-improvement scenario) and we continue to assume a 6% yield, the bond should be priced at \$35.7. This represents an improvement of \$3.8 (\$35.7- \$32.0), or 12%. The price increase is largely attributable to lower severity associated with a shorter liquidation timeline, thus a lower write-down for the tranche. (This more than offsets the fact that the *pro rata* loss allocation occurs earlier in the “servicer improvement” scenario.) Note that the weighted average life of the other senior tranches contracts, while the weighted average life of this tranche actually extends slightly (intuitively, there is less of the other tranches outstanding when the senior bonds begin to receive their loss allocation).

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Now let's consider the impact of recovery from the settlement alone. This deal would receive \$32 million 1 year from now, and it is accounted for as a subsequent recovery. We use the new Intex function for "Subsequent Recovery" to govern our allocation of this cash. [NOTE: Intex has had a lot of revisions on Countrywide deals "subsequent recovery" cash flow waterfall. As this report goes to press, we understand Intex is trying to work their way through the massive number of securitizations covered by this settlement.] Given this allocation, we re-run the bonds, assuming a 6% yield. The price on the 2A4 bond increases by \$5.0 (\$36.9-\$32.0), or 16%. If we combine the recovery from the settlement and the servicing improvements, then re-run the bond to a 6% yield—the price rises to \$41.2, for a change of \$9.3 (\$41.2-\$32.0), or 29%.

Note that in this particular deal, the senior tranche experiencing the most improvement is the 2A3. This bond has a theoretical price (to a 6% yield) that is quite low; it shortens considerably as a result of the settlement partially paying off the earlier bonds. Thus, the bond would theoretically experience a price change of 51% from the combined effect of the recovery settlement and the servicing improvements. (To the extent the market price is higher, the potential price increase will be less.) By contrast, the 2A1 bond does not benefit at all. The bond is quite short, and is basically paid off when the settlement occurs.

Exhibit 3 (below) summarizes this analysis on 6,429 CUSIPs, representing 1,022 groups on 504 deals. Our CUSIPs include IOs and exchangeable classes. [NOTE: We have shown results only where we were able to run all 4 scenarios.] The "Current

Exhibit 3: Aggregate Report on Valuation Impact

Shelf	Cap Struct	# CUSIP	# Groups	# Deals	Tranche Curr Adjusted (for Notional)	Base Case - Theoretical Px	Servicer Improvement - Px	Recovery - Px	Servicer Improve & Recovery - Px	Servicer Effect (% Px Change)	Recovery Effect (% Px Change)	Servicer and Recovery Effect (% Px Change)	Loss / Deal Balance
CWALT	Snr	1966	513	262	73.35B	66.8	68.3	69.8	71.3	2.2%	4.5%	6.6%	53%
	Mez	508	300	199	9.63B	14.5	14.5	21.7	21.8	-0.4%	49.5%	49.6%	74%
	Sub	395	91	170	3.06B	8.3	8.5	10.1	10.2	3.3%	22.5%	23.6%	46%
		553	308	191	0.00B	4.9	4.8	5.1	4.9	-1.9%	3.4%	0.1%	47%
	Total	3422	516	262	86.04B	40.7	41.5	43.0	43.8	1.9%	5.7%	7.6%	52%
CWHL	Snr	1149	335	144	35.04B	81.6	82.8	83.3	84.3	1.5%	2.1%	3.3%	30%
	Mez	255	197	111	1.73B	25.5	25.4	30.8	30.7	-0.6%	20.5%	20.1%	50%
	Sub	359	78	125	1.73B	8.1	8.6	9.8	10.3	5.9%	20.2%	26.2%	32%
		230	139	106	0.00B	1.8	1.7	1.8	1.7	-1.8%	1.8%	-0.2%	29%
	Total	1993	335	144	38.50B	51.1	51.8	52.4	52.9	1.5%	2.5%	3.6%	31%
CWL	Snr	287	155	87	17.33B	53.2	55.8	62.5	65.0	5.0%	17.6%	22.4%	97%
	Mez	4	4	4	0.08B	38.0	39.0	49.6	50.7	2.7%	30.7%	33.6%	95%
	Sub	716	51	95	11.87B	22.7	23.7	25.6	26.8	4.3%	12.8%	18.3%	81%
		7	5	7	0.00B	0.3	0.3	4.0	3.8	-0.9%	1186.5%	1133.1%	55%
	Total	1014	173	98	29.29B	39.2	41.1	45.8	47.7	4.8%	16.9%	21.8%	89%
	Grand Total	6429	1022	504	153.82B	43.2	44.1	45.9	46.7	2.1%	6.1%	8.2%	52%

Source: CoreLogic, Intex, Amherst Securities

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Outstanding Balance” shows only the non-notional tranche sizes; we have information on \$153.8 billion of the \$174 billion in current outstanding balances covered by the settlement. We priced all bonds to a 6% yield in all scenarios.

Results are summarized by shelf (CWHL is the shelf usually used for prime deals; CWALT the shelf usually used for Alt-A and Pay-Option Arm deals; CWL is the shelf used for subprime deals). First let’s look at the CWL senior bonds [average price (at a 6% yield) on these 287 CUSIPs is \$53.2 per \$100 par]; they represent 155 groups of 87 deals, with an outstanding balance of \$17.3 billion. With the servicer improvements, the value of the average bond rises to \$55.8, for an increase of \$2.6, or 5.0%. The recovery payment increases the value of the trust by \$9.3 (per \$100 par), (from \$53.2 to \$62.5), or by 17.6%. The theoretical value of the CWL senior bonds with both the servicing improvements and the added recovery is \$65, an increase of \$11.8 per \$100 par, or 22.4% from the base case. The final column shows that in the base case, total expected losses on these deals are 97% of current outstanding balance.

A few interesting facts jump out from Exhibit 3. There is an important interaction between product type and structure. The average improvement in the subprime senior bonds is 22.4%; that’s substantially higher than the 6.6% improvement in the Alt-A seniors (CWALT Shelf) or the 3.3% improvement in the prime seniors (CWHL Shelf). By contrast, the prime subordinate securities (CWHL shelf), on average, benefit more (+26.2%) than either the Alt-A subordinate securities (CWALT shelf, +23.6%) or the subprime securities (CWL shelf, +18.3%). And the Alt-A mezzanine securities (+49.6%) benefit considerably more than the mezzanine securities on either the prime or subprime shelves. These are all results of interactions between settlement amounts as a percentage of deal balance, as well as credit enhancement and cash flow timing.

All securities in the same deal will not react similarly to the settlement. This was clear from Exhibit 2, where the 2A1 bond was unchanged in price, while the 2A4 was +29% and the 2A3 was +51%. And differences across deals can also be quite sizeable. In Exhibit 4 (next page) we show price changes between our “Servicer Improvement and Recovery Scenario” and our “Base Case Scenario,” by security type (senior, mezzanine, subordinate) and by shelf. So, for subprime seniors (CWL shelf), we find that 17% of the securities theoretically change in price by <10%; 11% of the securities theoretically improve in price from 10-20%; 27% of the securities theoretically improve in price by 20-30%; 34% of the securities theoretically improve in price by 30-40%; and another 11% of the securities theoretically improve in price by >40%. The distribution of prime senior bonds looks completely different—92% of the bond theoretically change in price by <10%, 7% theoretically improve in price from 10% to 20%, and 1% theoretically improve in price from 30% to 40%. On the CWALT shelf, the mezzanine bonds benefit by far the most, with 71% of the bonds theoretically improving >40% in price.

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Exhibit 4. Distribution of Price Changes by Shelf and Capital Structure

SHELF	Cap Struct	Distribution of Theoretical Price Moves						Grand Total	Curr Tranche Bal (\$M)
		<0	0-10%	10%-20%	20%-30%	30%-40%	40%+		
CWHL	Snr	1%	91%	7%	0%	1%	0%	100%	35,035
	Mez	4%	23%	18%	11%	14%	31%	100%	1,730
	Sub	3%	45%	16%	17%	8%	11%	100%	1,730
CWALT	Snr	1%	71%	21%	6%	1%	1%	100%	73,347
	Mez	1%	3%	4%	7%	13%	71%	100%	9,634
	Sub	6%	37%	13%	15%	9%	20%	100%	3,047
CWL	Snr	1%	16%	11%	27%	34%	11%	100%	17,331
	Mez	0%	0%	0%	44%	0%	56%	100%	81
	Sub	11%	28%	17%	10%	6%	28%	100%	11,878
Row Percent		2.10%	62.22%	15.00%	7.14%	4.34%	9.20%	100.00%	153,815
Curr Tranche Bal (\$M)		3,188	92,485	22,802	11,967	9,325	14,048	153,815	

Source: CoreLogic, Intex, Amherst Securities

Conclusion

We discussed the two main effects of the Bank of America settlement: recovery from the settlement, and servicer improvements. The collective impact of these two changes on the valuation of securities can be large. However, the individual results can vary considerably between securities. Most subprime and Alt-A senior bonds are up 2-3 points on the news of the settlement—but for most of those bonds, that movement appears to be too little, while for others, it's too much. Senior bondholders in prime deals seem to be disregarding the settlement entirely; we have shown there is usually a small impact. This impact will generally be magnified in the mezzanine bond of a re-REMIC backed by senior CWHL collateral, as whatever the effect is on the original tranche, the benefit is concentrated in the mezzanine bond of the re-REMIC.

Even if the monetary settlement does not go through, we believe that Bank of America servicing on legacy Countrywide securities will begin to look more like that of other servicers. Much of the sub-servicing will have been contracted for prior to settlement approval. And as we have shown, that alone will improve the value of the securities.

We look forward to working with investors to determine the impact of this settlement on the securities they hold in portfolio, as well as on any potential purchases.

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