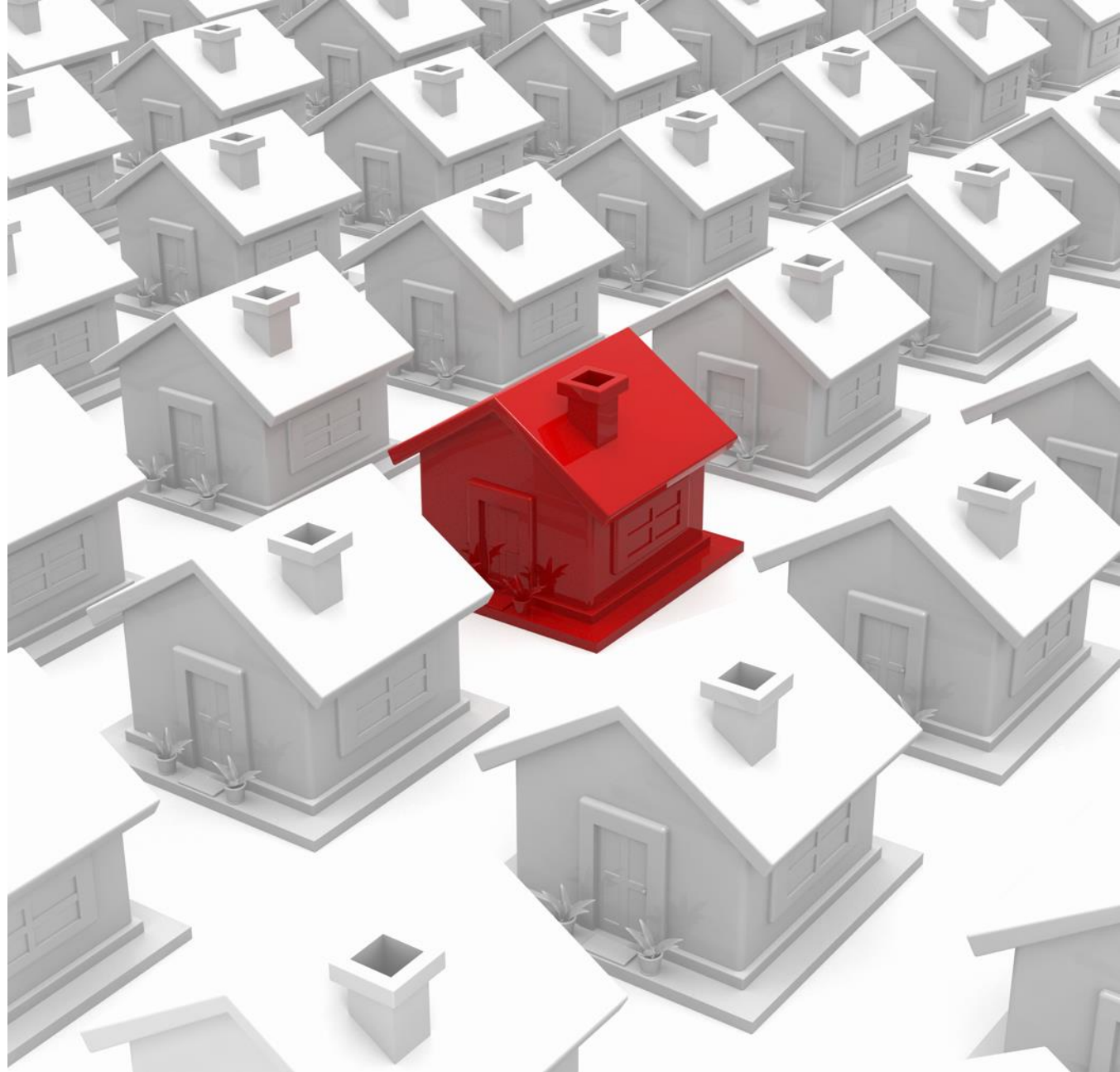


*Ironwood's purpose is to help FHA resolve the mortgage crisis — now*

- 55 million home mortgages
- Since housing crisis began, 8.6 million homes have gone into foreclosure. System has choked.
- 11.5 million more homes could be heading for foreclosure. What will that do to the U.S. economy?
- Approximately \$1 trillion in U.S. mortgages are in distress now or soon will be.



*Most onerous problem  
is underwater mortgages*

- 2.75 million borrowers (one out of twenty) are underwater by more than 20% of current value and they are defaulting at a rate of 20% per annum.

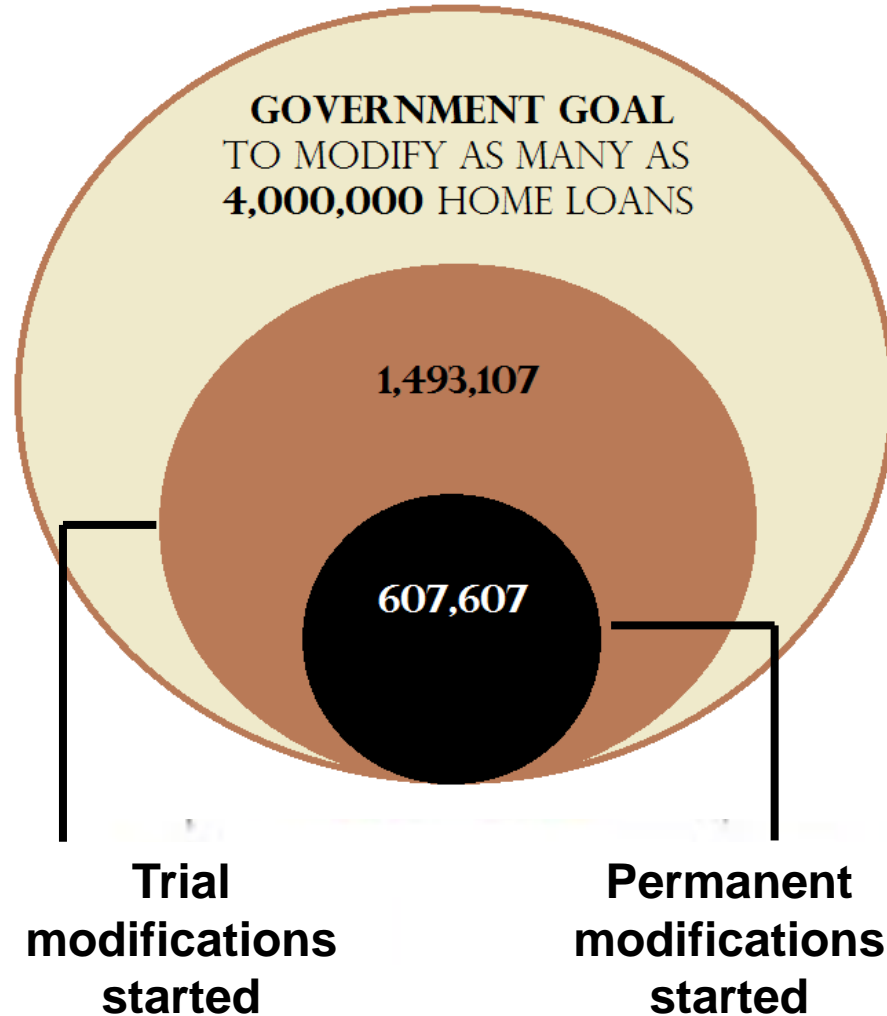


*Government initiated loan-modification programs to date are not solving default problem*

- Modified loans must be re-underwritten — which requires verifying borrower and property qualifications, negotiating with multiple lien holders, ensuring validity of title and preventing fraud and abuse
- Loan modification is an origination task, not a servicing task. Most loan servicers are ill equipped to perform modifications.
- Modifications have had minimal overall impact. More than half of these "dirty current" loans are likely to re-default per annum.

The  
New York  
Times

THROUGH  
DEC 2010



*More than 612,000 single-family mortgages in default are FHA-insured*

- 10% of home mortgages carry FHA Mutual Mortgage Insurance (MMI)
- Large quantities of FHA-insured, non-performing loan pools held by servicers are reverting to bank balance sheets
- Some banks need capital relief and are anxious to shed FHA default pools
- Some banks seem to be in no hurry to foreclose because FHA covers 100% of banks' costs
- 612,000 FHA-insured single-family mortgages— and counting— are in default
- 65,000 homes are in the FHA REO inventory— bucket is full

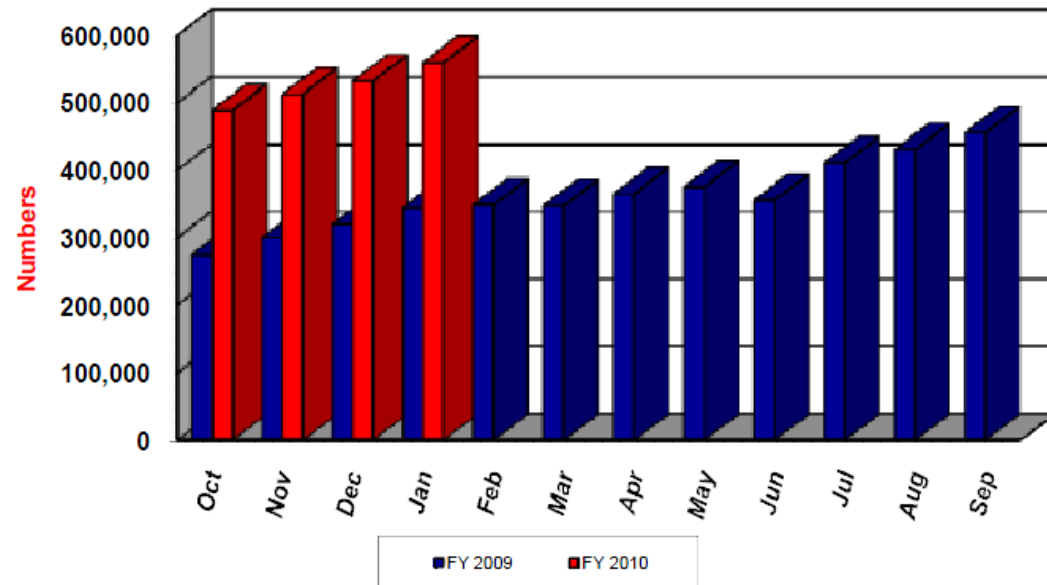
Your Door to

**FHA**

**HOMEOWNERSHIP**



90-Day Defaults



As of January 31, 2011 the number of defaults reported was 612,443.

*Current procedures for resolving FHA default claims are expensive and destroy economic value*

- Before paying default claims, HUD has required foreclosure and eviction
- Homeowners who face foreclosure do not maintain and preserve home value
- Foreclosures drag down values of neighbors' homes
- Foreclosures and evictions are expensive for HUD, banks, homeowners and neighbors
- Public policy is to minimize number of foreclosures and evictions
- The longer mortgage crisis drags on, the more it will cost the FHA and the economy



*The proposed short-claim procedure is within HUD's existing legal authority*

Executing the procedure will:

■ Serve economic goals

1. Save the FHA default loan-carry and foreclosure costs
2. Slow the growth of the FHA's REO inventory
3. Accelerate resolution of the FHA default backlog
4. Free up FHA financial and personnel resources

■ Serve policy goals

- Give homeowners positive equity in their homes
- Strongly incentivize homeowners to pay mortgages
- Trigger more positive homeowner behavior
- Increase workforce mobility
- Reduce banks' accrual of FHA-guaranteed interest





\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**

Bank/Issuer  
NPL Pool

- Start with a bank that has a portfolio of FHA-insured mortgages that are in default.
- For illustration, assume each mortgage has an unpaid balance of \$100,000.
- With home values down roughly 25% on average since the bulk of these mortgages were made, a representative fair market value for the mortgaged home is \$75,000.
- A \$100,000 unpaid balance and \$75,000 fair market value give us a loan-to-value ratio of 133%.



\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**

- Ironwood negotiates with the bank bulk purchases of pools of their FHA-insured NPL's.
- Because mortgages are FHA insured, Ironwood expects to pay near par for them.
- $\$99 + \$5 \text{ of advances} = \$104$

Bank/Issuer  
NPL Pool

**\$104**





The bank places the mortgages in an Ironwood special purpose vehicle and awaits payment.

\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**

Special Purpose Vehicle

Bank/Issuer  
NPL Pool

\$104

# Short-claim procedure



\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**



\$104

- Ironwood, through the SPV, files claims on the NPL pool loans through normal FHA channels.
- HUD takes temporary possession of mortgages
- The FHA evaluates the mortgages against default-claim requirements.

# Short-claim procedure



\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**

Rejected claims

The FHA rejects claims that do not meet claim requirements.



\$104

# Short-claim procedure



\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**

Rejected claims

Curable rejected claims

Ironwood repairs any curable rejected claims.



Incurable rejected claims

Incurable rejected claims go back to the bank.



\$104

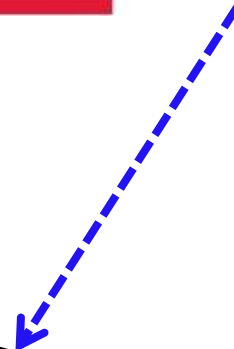
# Short-claim procedure



\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**



← \$74 →

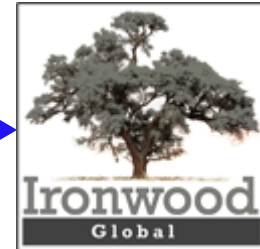


Ironwood and FHA arrive at a short-claim amount on the entire NPL pool to be paid from MMI fund (\$74) into the SPV.



\$104

# Short-claim procedure



\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**

\$71 UPB  
\$75 FMV  
95% LTV

← \$74 →



Special Purpose Vehicle

\$104

- FHA modifies the mortgages.
- Principal reduction reduces illustrative \$100,000 unpaid balance to roughly \$71,000.
- By design, principal reduction reduces loan-to-value ratio to 95%, which gives the homeowner 5% positive equity.



Bank/Issuer  
NPL Pool

# Short-claim procedure



\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**

\$71 UPB  
\$75 FMV  
95% LTV  
**No insurance**

\$74



\$104

- The FHA pays the short-claim (\$74) into the special purpose vehicle.
- Payment of the short-claim frees the FHA from further contractual obligations on the mortgage insurance.

# Short-claim procedure



\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**

\$71 UPB  
\$75 FMV  
95% LTV  
**No insurance**



\$74

\$30

\$104

- FHA transfers ownership of the mortgages back to the special purpose vehicle.
- Ironwood pays into the special purpose vehicle the remaining amount needed to pay the bank.
- The special purpose vehicle pays the bank.





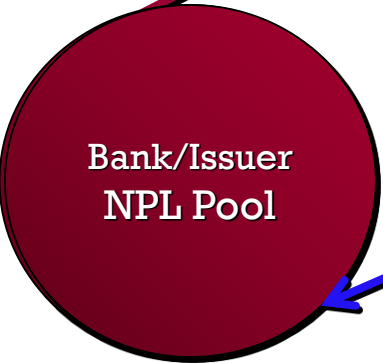
# Short-claim procedure



\$100 UPB  
\$75 FMV  
133% LTV  
**FHA insured**



\$71 UPB  
\$75 FMV  
95% LTV  
**No insurance**

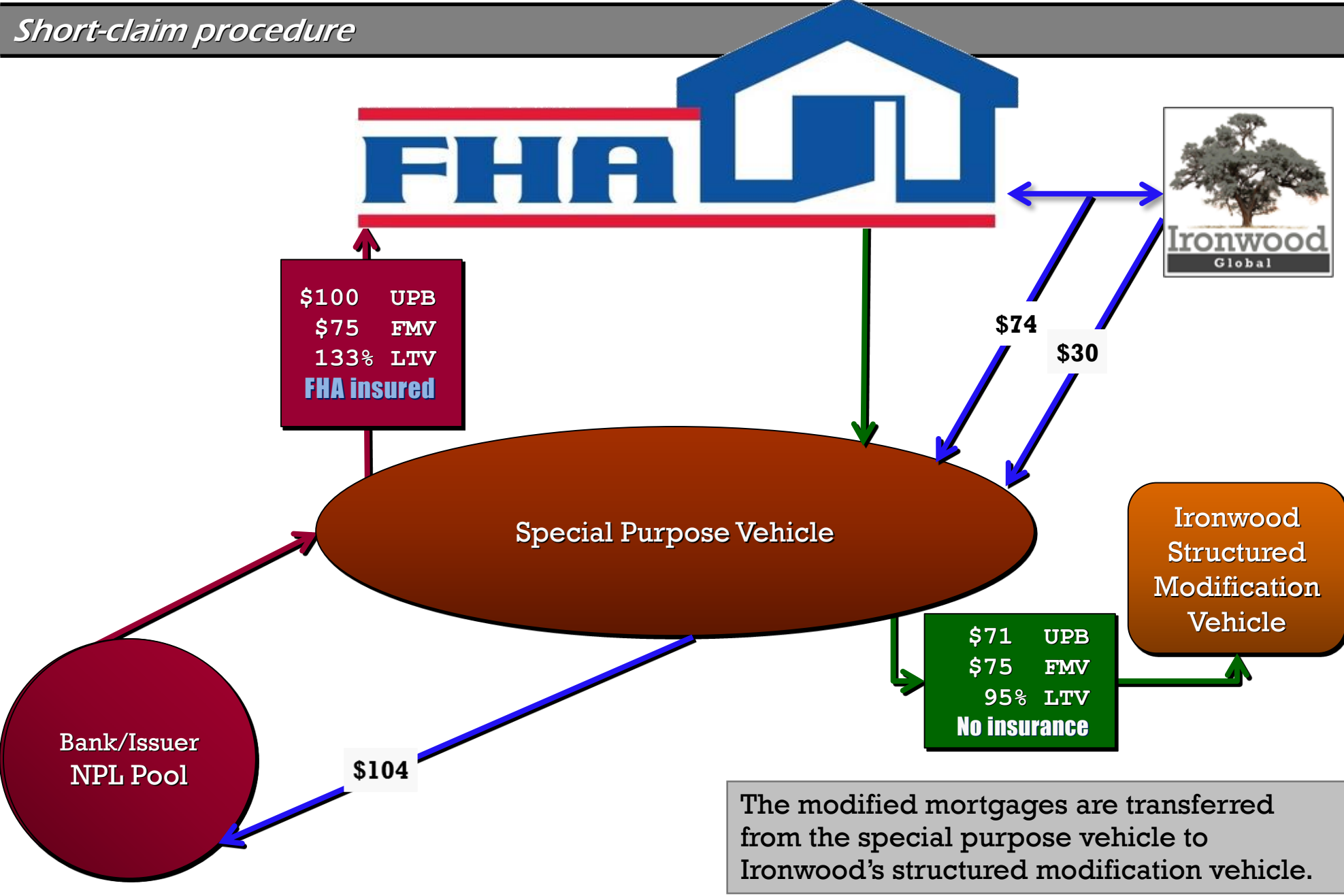


The modified mortgages are transferred from the special purpose vehicle to Ironwood's structured modification vehicle.

\$104

\$74

\$30



# Short-claim procedure summary

## FHA Savings

### Existing

- Claim = \$117
- Added DW = \$17
- Recovery = \$45
- Net Loss = \$89

### Short-Claim

- Claim = \$74
- Savings = \$15
- 44% of DW Costs

# FHA



\$100 UPB  
 \$75 FMV  
 133% LTV  
**FHA insured**

Rejected claims

Curable rejected claims

Special Purpose Vehicle

Incurable rejected claims

\$71 UPB  
 \$75 FMV  
 95% LTV  
**No insurance**

Ironwood Structured Modification Vehicle

Bank/Issuer NPL Pool

\$104

\$74

\$30

Paying short-claims sooner rather than paying full default claims later will reduce significantly FHA's ongoing operational costs, processing costs, servicer advances and interest payments.

*Loan Resolution/Disposition Channel: Once mortgages are in our SMV, Ironwood will move each homeowner along one of several paths*

- Ironwood will contact each homeowner (single point of contact) and assess desire and ability to pay mortgage based on FHA modification
- To homeowners who want to keep their homes but need easier terms, Ironwood will offer structures suited to local and demographic markets
- For homeowners who return their loan to performing status, foreclosures in progress will cease
- Re-performing loans will be held and seasoned until they are marketable
- Resolution of re-performing loans will be through market mechanisms like REITs or securitization, not through GSEs



Ironwood  
Structured  
Modification  
Vehicle

Re-performing  
as FHA modified  
or with additional  
modifications

REIT

Securitization

*Loan Resolution/Disposition Channel: Once mortgages are in our SMV, Ironwood will move each homeowner along one of several paths*

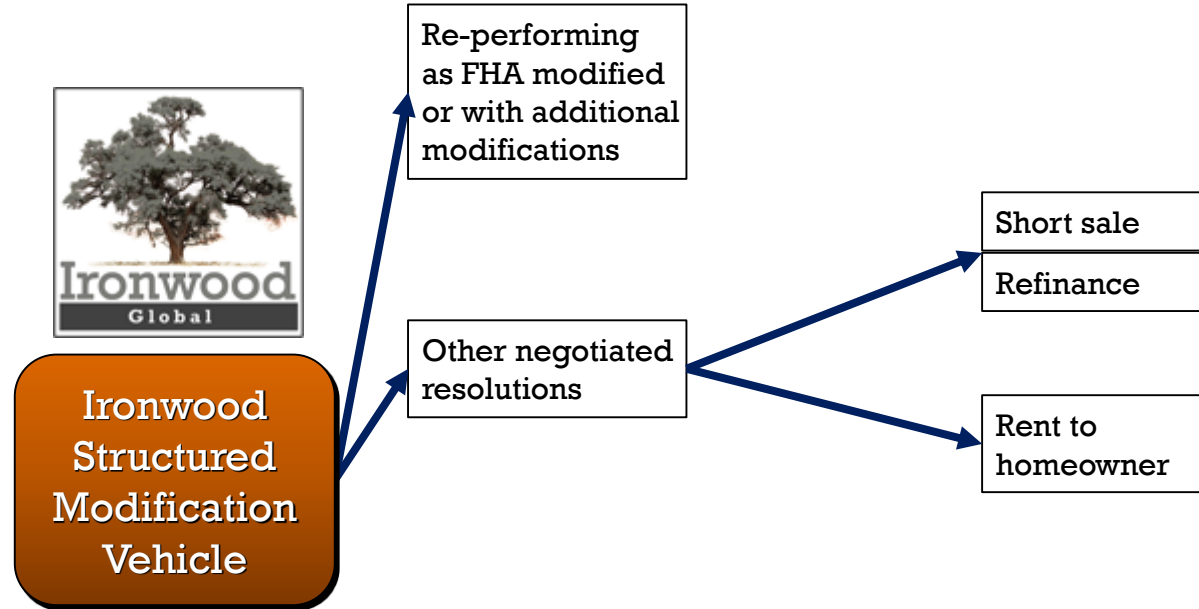
If homeowner is unwilling or unable to take on new mortgage but ...

a. Wants to stay in the home, Ironwood will:

- ❑ Offer to rent house to homeowner at subsidized rates (as needed) and possibly with a repurchase option in exchange for his or her surrendering deed. (As many as 40% of homes facing foreclosure are still owner-occupied.)

b. Wants to move, Ironwood will:

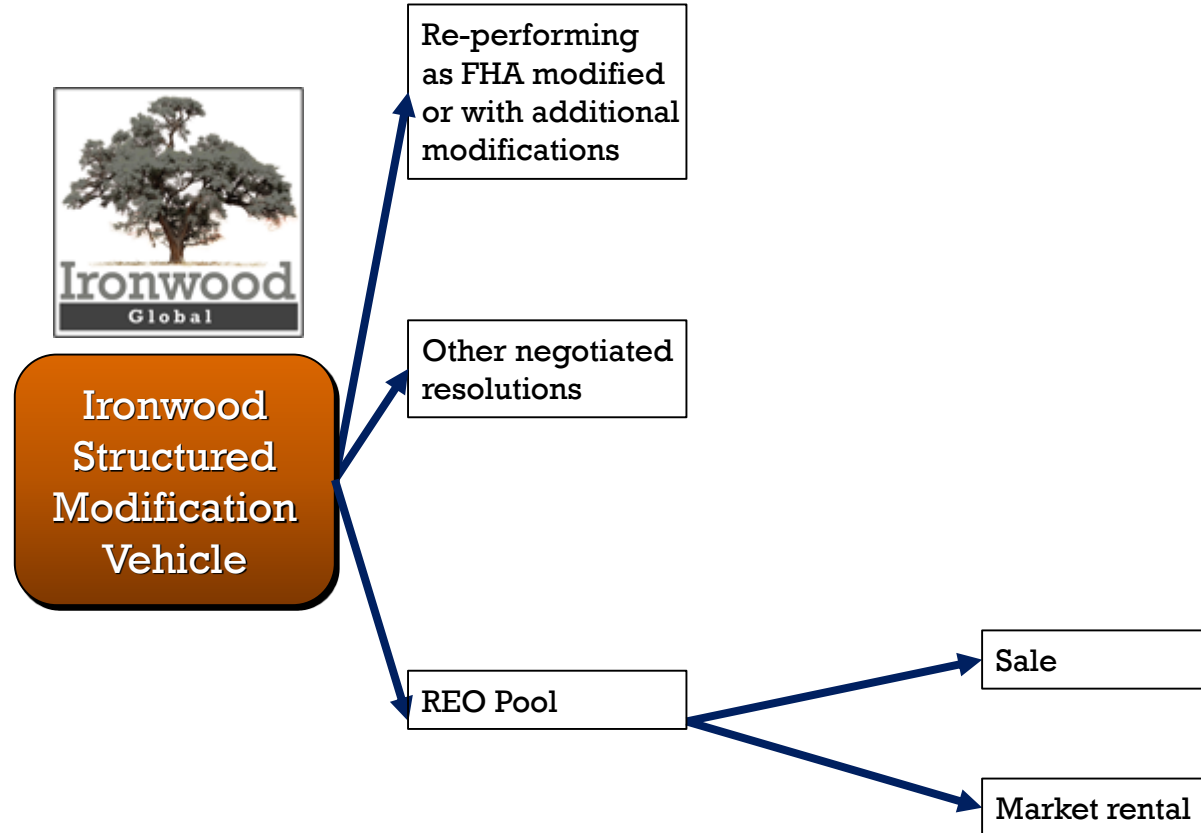
- ❑ Assist with a negotiated short sale (with or without profit-sharing)
- ❑ Assist with refinancing



*Loan Resolution/Disposition Channel: Once mortgages are in our SMV, Ironwood will move each homeowner along one of several paths*

If negotiations fail:

- Ironwood will proceed to foreclose, evict and capture property
- Captured homes will go into our REO pool from which we will sell or rent them
- For both economic and policy reasons, Ironwood wants to minimize number of mortgages that go down foreclosure path
- We expect as little as 20% of mortgages to end up in foreclosure and eviction



*Ironwood's success  
requires excellent  
valuation analytics*

- For FHA to reduce unpaid principal balance of each loan in pool to 95% LTV, Ironwood must accurately determine fair market value of each home in pool
- To quantify potential cost savings to FHA, Ironwood must calculate for each home the likely cost to FHA of following current default procedures of foreclosure, eviction and distress sale
- To improve our loan-resolution process over time, we must model probabilities, processes and timing of moving mortgages in pool and their associated homes down different paths toward resolution and disposition



*Ironwood has best valuation analytics and disposition modeling in the industry*

- Analytics and modeling makes loan-by-loan estimations of :
  - Property value
  - Collateral impairment
  - Carry costs
  - Recapture costs and
  - Disposition value
- Analytics and modeling supports:
  - Loan pool underwriting
  - FHA claim pricing
  - Servicer valuations
  - REO modeling
  - REIT underwriting
  - REIT ongoing valuations
  - Loan disposition



*The sooner we move forward, the better*

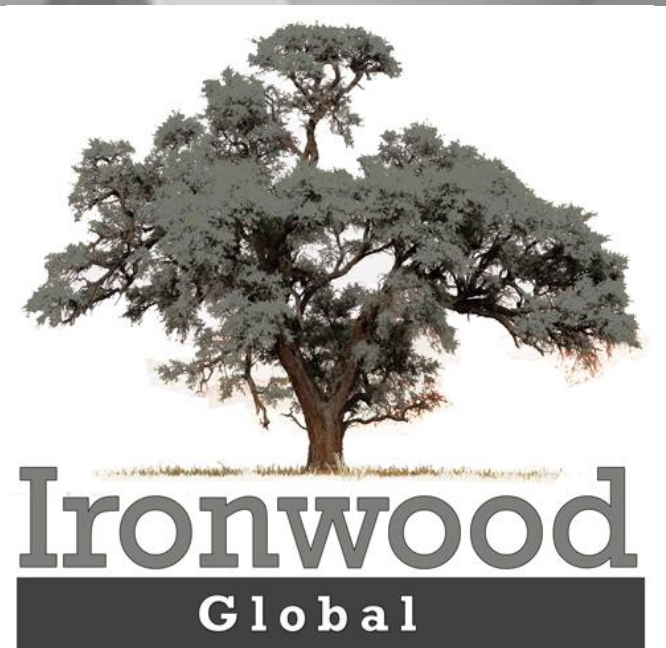
- Mistakes that led to housing bubble and crash are in past
- Housing and mortgage markets are in a logjam
- Homeowners' mortgage obligations are misaligned with economic reality
- NPL pools are a drag on bank capital....preventing new origination?
- Real estate market remains fragile
- Home sales are low and need new mortgage capacity
- Underwater mortgages impair workforce mobility
- Housing and mortgage crisis may be adding as much as 2% to unemployment rate
- More expected defaults...





*Collaboration of FHA and Ironwood will succeed because it will benefit everyone*

- FHA/HUD will pay out less in default-insurance claims
- FHA/HUD will unburden its staff and free resources
- Banks and issuers will get NPL's off their balance sheets
- Homeowners will get positive equity in their homes, be able to rent and/or repurchase their homes and participate in short sale equity
- Homeowners will see value improvement through fewer foreclosures
- Short-claim implementation has the ability to move the market



**Ironwood**  
Global