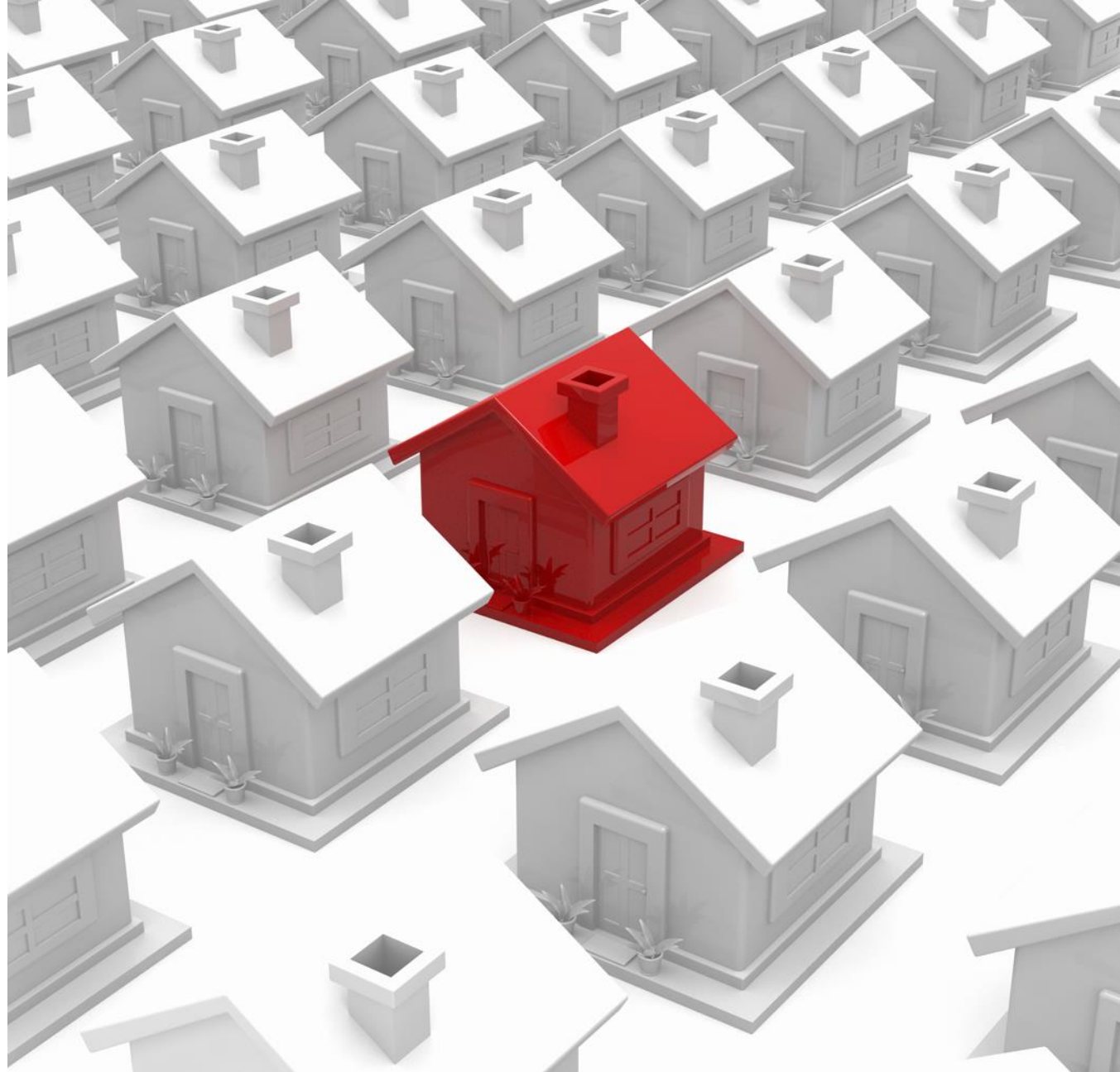


Ironwood's purpose is to help FHA resolve the mortgage crisis — now

- 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.

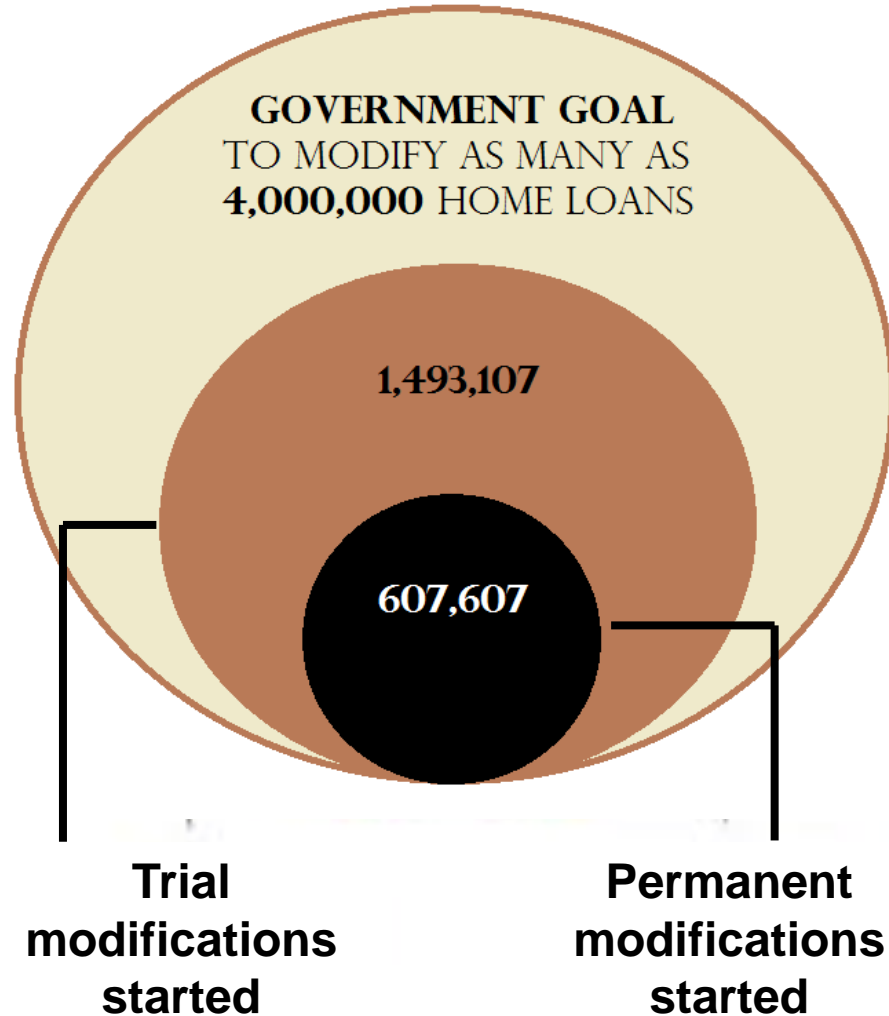


Government initiated loan-modification programs to date are not solving default problem

- 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

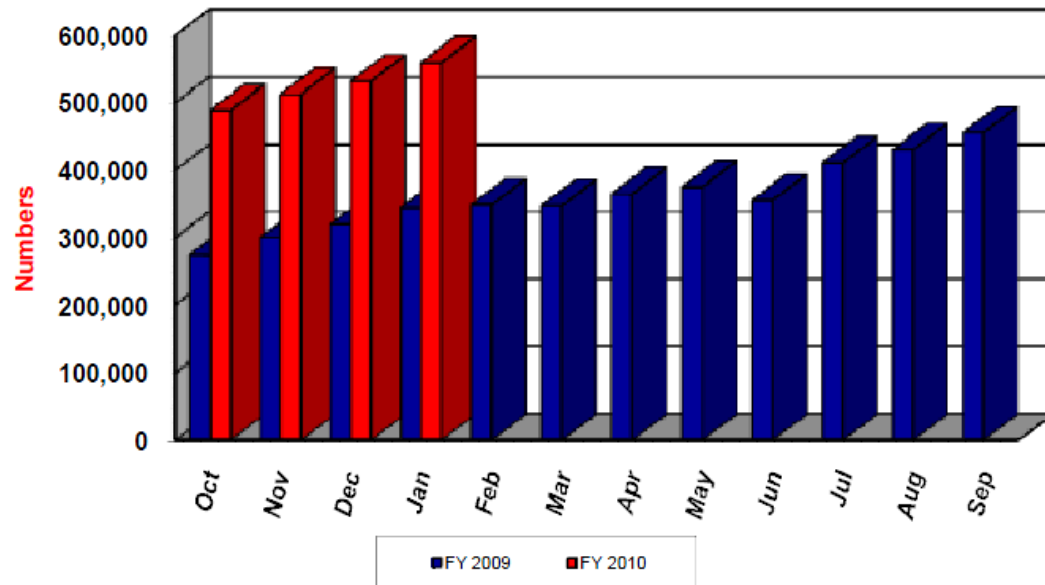
Your Door to

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



Special Purpose Vehicle



Bank/Issuer
NPL Pool

\$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.



Special Purpose Vehicle



Bank/Issuer
NPL Pool

\$104

Short-claim procedure



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

Rejected claims

Curable rejected claims

Ironwood repairs any curable rejected claims.



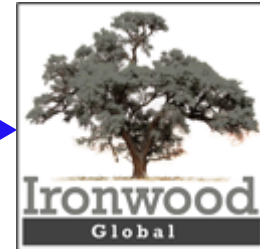
Incurable rejected claims

Incurable rejected claims go back to the bank.



\$104

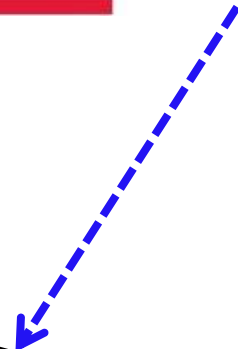
Short-claim procedure



\$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



Bank/Issuer
NPL Pool

Short-claim procedure



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

\$71 UPB
\$75 FMV
95% LTV



\$74



\$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.

Short-claim procedure



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

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

\$74



\$104

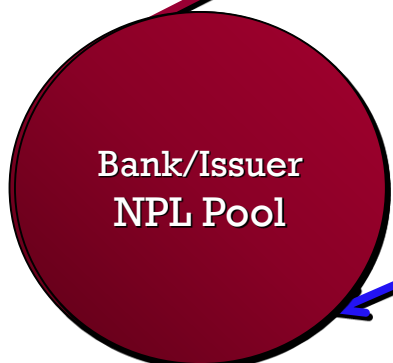
- The FHA pays the short-claim (\$74) into the special purpose vehicle.
- Payment of the short-claim frees the FHA from further contractual obligations on the mortgage insurance.

Short-claim procedure



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

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



- 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.

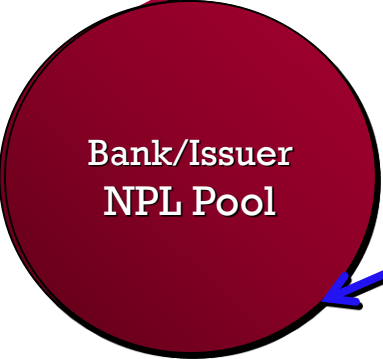
Short-claim procedure



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



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

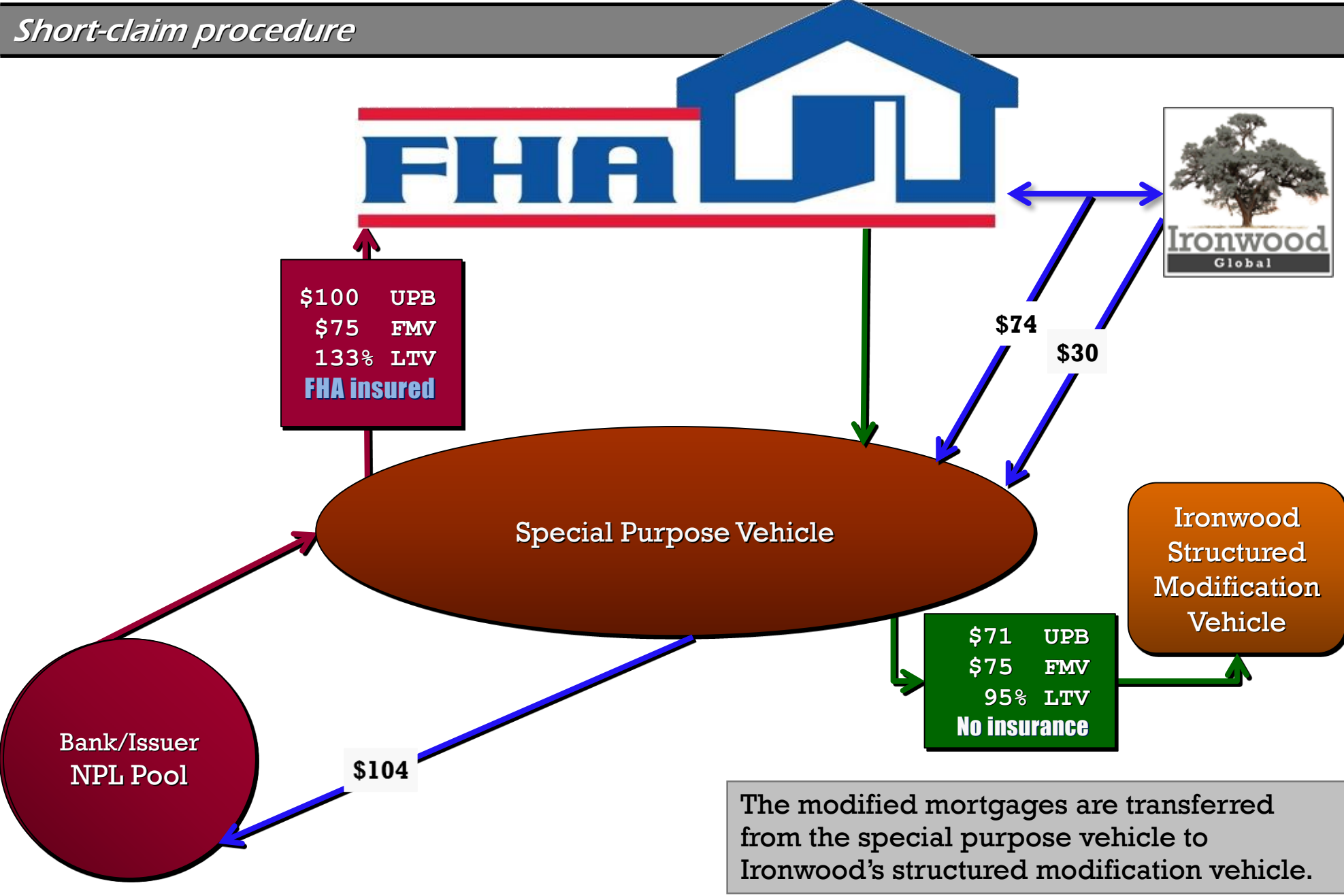


The modified mortgages are transferred from the special purpose vehicle to Ironwood's structured modification vehicle.

\$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

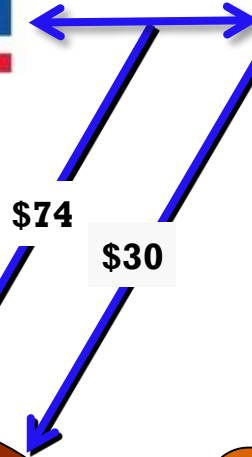
Special Purpose Vehicle

Incurable rejected claims

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

Ironwood Structured Modification Vehicle

Bank/Issuer NPL Pool



\$104

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

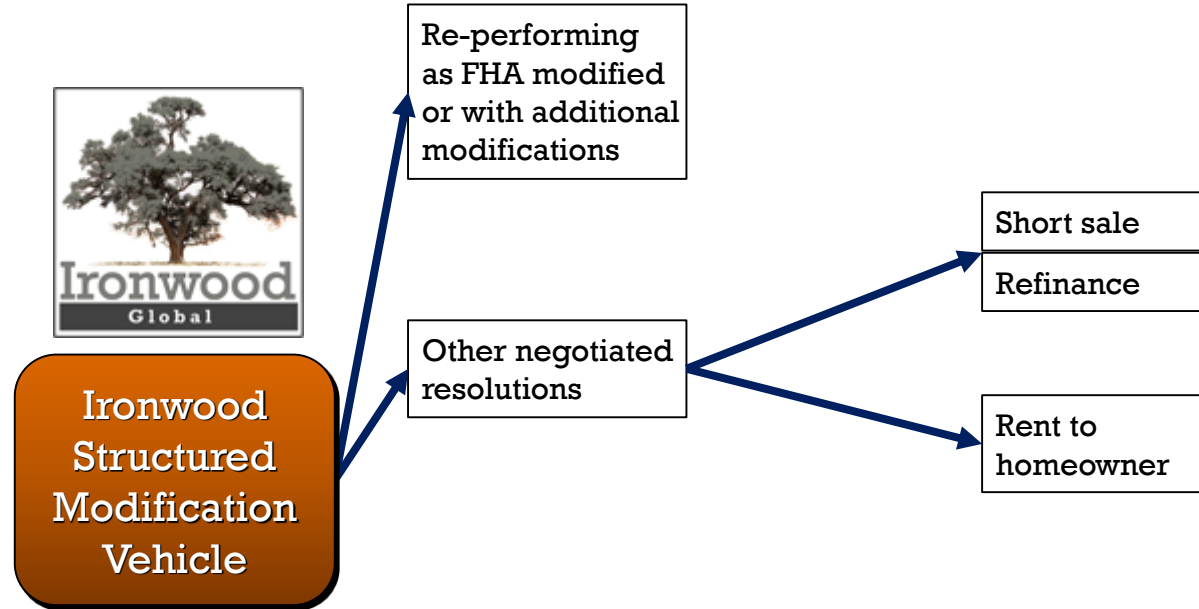
If homeowner is unwilling or unable to take on new mortgage but ...

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:

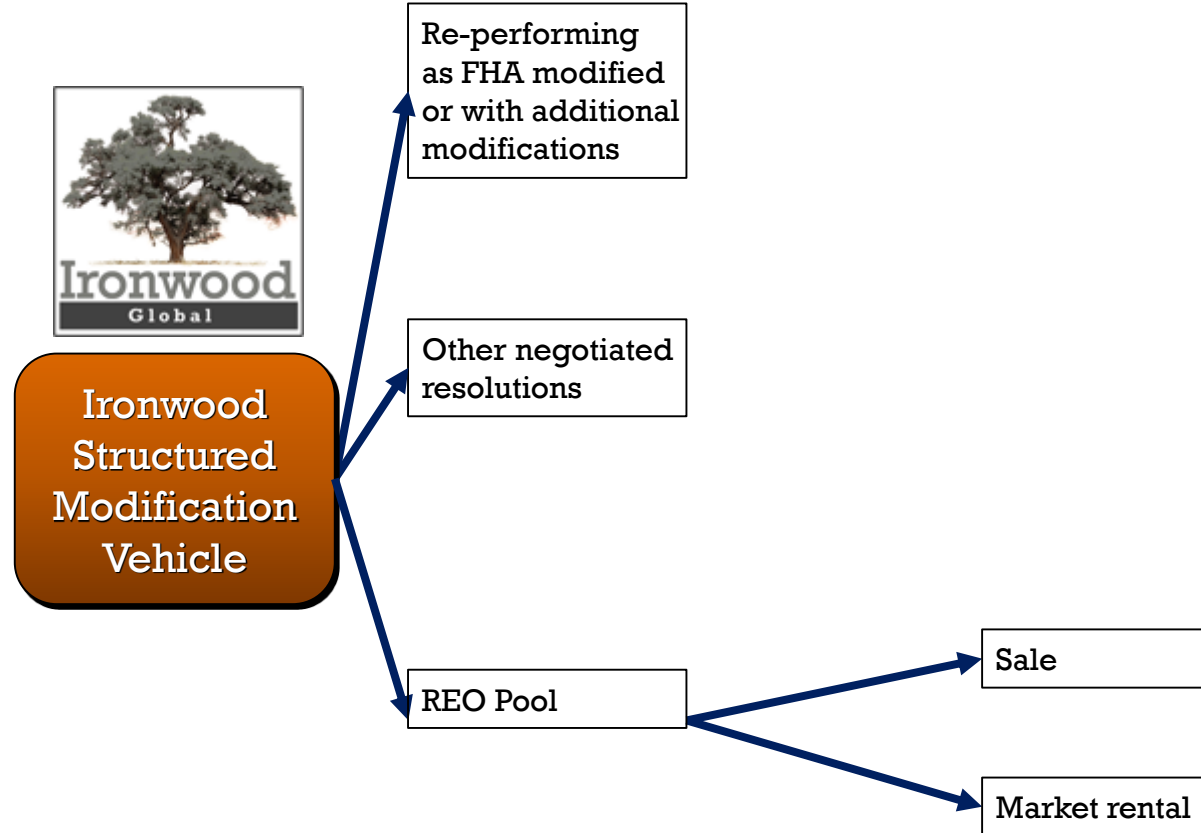
- ❑ Assist with a negotiated short sale (with or without profit-sharing)
- ❑ Assist with refinancing



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

