

1) Below is a note (item 5) from a smart friend **long** premium coupons, which is obviously biased, but informative. The flurry of notes in the past 8 hours dismissing this as a possibility is the street trying to pretend like it won't happen so they can get their books in order and front run their clients. Those investors long premium cpns are also dismissive because they are making a ton off the gov't by clipping coupons and don't want it to stop.

2) Quite frankly, with an Admin with its back against the wall, mid-terms here in a few months, massive negative ink about HAMP, the Fed stuck with owning 80% of the GSE 4% and 4.5% coupons with little liquidity in those coupons, and mortgage rates on the street not dropping in recent weeks as they should, I think something along these lines happening is a strong possibility...the players are in position with Fannie, Freddie and Ginnie all under Obama's wing. With approval ratings for Obama and CONgress stuck in the trenches the blow-back from a program like this won't be as painful as doing nothing will. The timing right now is perfect for something like this.

This can actually be thought of as another spin on the national mortgage rate program that was being pumped so hard before HAMP came out. Our entire mortgage market is effectively nationalized - why not dictate the mortgage rate, bring the exposure risk on the US balance sheet from the GSE's and Ginnie down, stimulate the consumer, and keep mortgage originators and investors honest all at the same time?

One thing is for sure -- they are doing a terrible job trying to get rates down and preventing the default and foreclosure crisis by modifying loans.

3) Or, perhaps this is all a rumor floated by .gov to ML and MS to try and talk current mortgage rates down. If the market is spooked into selling premium 5% to 6.5% coupons like they were earlier this year when the huge GSE buyback was announced then capital should flow down coupon to the current coupons reducing mortgage rates. The speculation and high prices in the premium coupons from those that know the borrowers are stuck is out of control.

4) Funny - this just in as I was writing...Nomura selling a ton of IIO and taking profits. The market is very illiquid especially in this kind of size. IIOs are inverse IOs which are vehicles that are most leveraged to fixed rate premium coupons financed by implied LIBOR...this guy is taking massive profits and will sit out the volatility coming. Smart. So he takes a few ticks hit on the bid/ask and liquidity premium but he already has multiple points of leveraged profit under his belt.

(NOMURA SECURITIES IN)

TOTAL IIO IN FOR THE BOD SO FOR APPROX \$800MM C/F

5) Note from mbs investor friend dismissive of easy-refi speculation

- 1) Ravi at nomura indicating current coup would be 50-70 wider.. It won't be at 70..
- 2) Housing would be destroyed with higher rates/wider spreads. As you know it is already on tough footing
- 3) Not just banks etc.. GSEs (FN/FH have a lot and a lot of

derivs) and the Treasury will have to plug the capital hole, the FED will get blasted too and the treasury somewhat as they own paper. Banks/retirement managers etc aren't speculators, they are long term investors. PBGC might have to plug some pension holes if they blow a big enough gap to put some company plans past the point they can fund em.

- 4) Politically it is going to be rough. Why help the 'well off' who are paying and can pay their loans? It is going to look like a handout to the rich. Why don't they just pay to refi themselves? Why aren't people taking advantage of hi LTV refis? LLPAs already can be worked around by rate buyups. Why isn't someone who can go from 6.5-5 not refinancing? Because they cannot get 4.5? And then the government is going to take some big capital hits. MS made it seem like there was no cost. There is.

Not seeing much movement in spec coupon payups. It is the TBA market that is getting hit. We also need to note that bonds yielding 1.75-2% (35cpr on 6.5 for example) look good when comparable duration alternatives are like 30 bp. Current coupons didn't budge yesterday relatively. Over a trillion of supply would send people running from the MBS market in droves. Blowing up REITs and the shadow banking system after trying to repair it would be nasty. Economically, in my opinion, this would look like it aids consumers on the surface, but it will undo a lot that has been done and send us back into a downward spiral and it will be a direct hit on the federal balance sheet from multiple angles. Doing this in the hope it avoids future defaults from people who are paying seems awful drastic and dangerous. Doing this back in 2008 right as they announced the FED QE program would have been different. Prices were around 103 and the damage would have been easily offset.

Best Regards,

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