RAYMOND JAMES

State of the GSEs and Interest Rates

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FIXED INCOME RESEARCH

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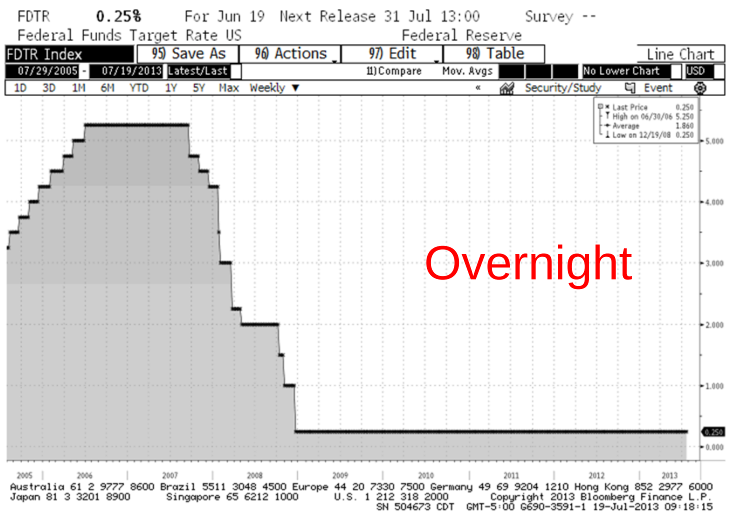
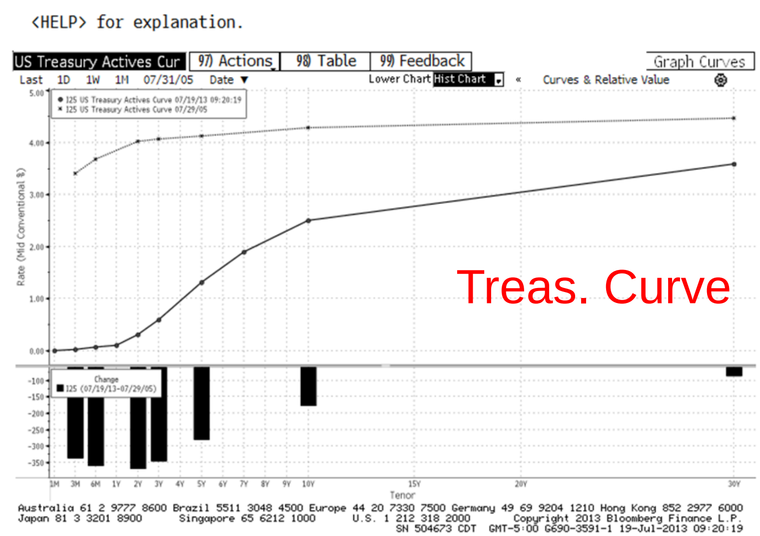
INTEREST RATE ENVIRONMENT

Past, Present and *Expected* Future

STATE OF THE GSEs AND INTEREST RATES





The Fed's Two Approaches to Monetary Policy

- Overnight Fed Funds Rate
  - Rate influences prime and other indices tied to bank loans
- Quantitative Easing dubbed "QE"
  - Active purchasing of longer dated treasuries and mortgage backed securities.

STATE OF THE GSEs AND INTEREST RATES

Since the FOMC began to mention (April 2013) that they would begin to taper their purchase of MBS possibly late this year, interest rates have risen quite substantially over the last two months. Additionally, credit spreads across many product types have been very volatile going into quarter end as many dealers have inventory levels that are bloated and they have cheapened their spread levels to Treasuries.

Source: WSJ

STATE OF THE GSEs AND INTEREST RATES

Since the FOMC began to mention (April 2013) that they would begin to taper their purchase of MBS possibly late this year, interest rates have risen quite substantially over the last two months. Additionally, credit spreads across many product types have been very volatile going into quarter end as many dealers have inventory levels that are bloated and they have cheapened their spread levels to Treasuries.

Agency Spreads (representing FNMA structures)**

Bermuda Call Structures	*Spread*	*Week Ago*	*Month Ago*	*Year Ago*
1YR NC 3MO (IAM)[1,2]	-5	-5	-5	-4
2YR NC 3MO	+20	+14	+9	+14
2YR NC 1YR	+21	+17	+10	+17
3YR NC 3MO	+20	+14	+9	+12
3YR NC 6MO	+20	+14	+9	+14
3YR NC 1YR	+21	+17	+10	+17
5YR NC 3MO	+40	+34	+31	+34
5YR NC 6MO	+42	+36	+33	+36
5YR NC 1YR	+42	+38	+29	+41
5YR NC 2YR	+33	+29	+24	+39
5YR NC 3YR	+24	+21	+15	+33
7YR NC 3MO	+63	+58	+51	+60
7YR NC 1YR	+59	+55	+47	+63
10YR NC 3MO	+77	+70	+72	+75
10YR NC 1YR	+73	+68	+59	+76
10YR NC 3YR	+52	+48	+40	+56
15YR NC 3MO	+138	+133	+132	+130
15YR NC 1YR	+133	+129	+133	+134

European Call Structures	*Spread*	*Week Ago*	*Month Ago*	*Year Ago*
2YR NC 1YR	+20	+15	+5	+12
3YR NC 1YR	+20	+15	+5	+12
5YR NC 1YR	+35	+30	+19	+33
5YR NC 2YR	+29	+25	+23	+36
10YR NC 1YR	+59	+54	+40	+51
10YR NC 2YR	+52	+47	+39	+50

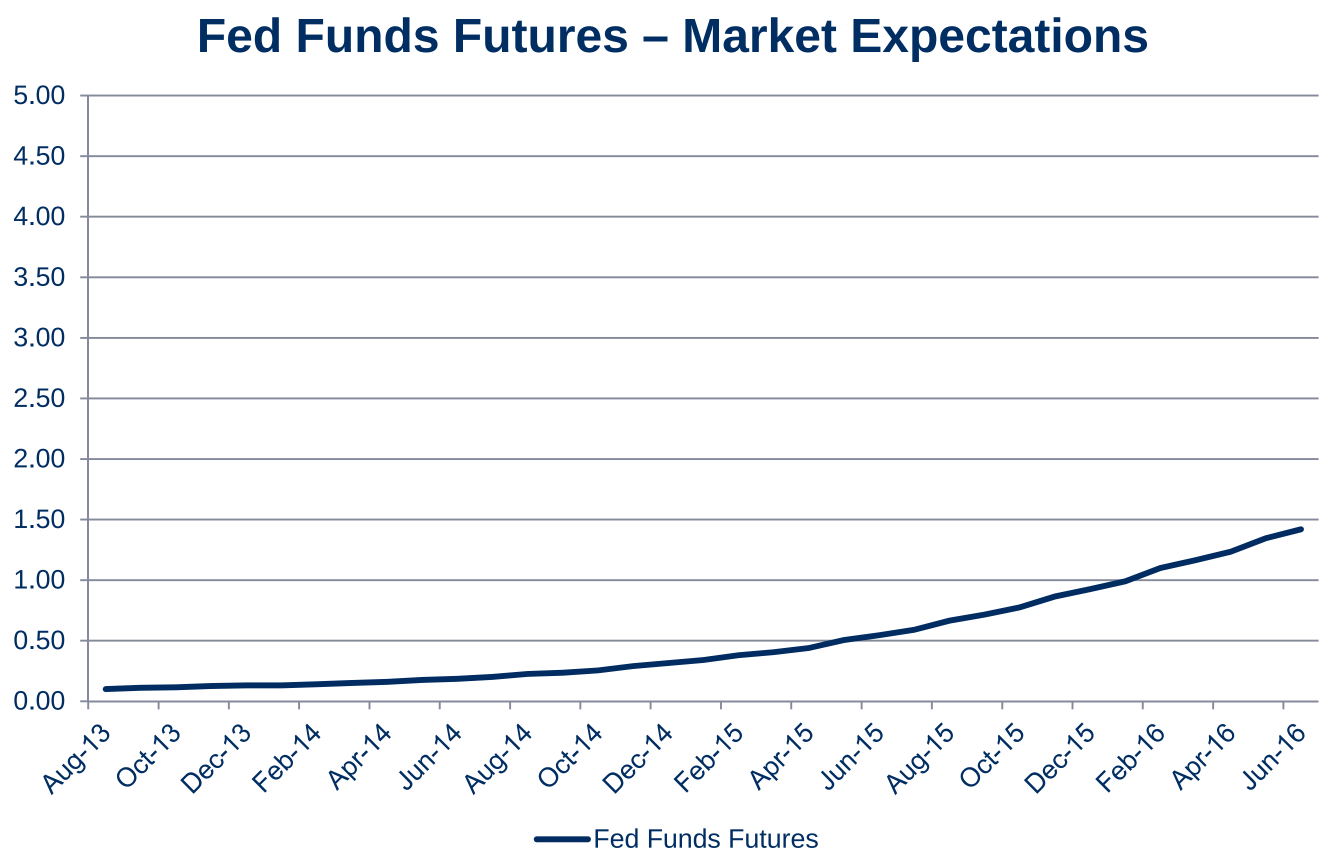
Bullet Structures	*Spread*	*Week Ago*	*Month Ago*	*Year Ago*
1 Year[2]	-5	-5	-5	-2
2 Year	+5	+4	+6	+8
5 Year	+30	+25	+20	+26
10 Year	+60	+54	+35	+40

Benchmarks	*Spread*	*Week Ago*	*Month Ago*	*Year Ago*
5 Year (FNMA)	+27	+25	+21	+22
20 Year (FHLMC)	+29	+29	+4	

STATE OF THE GSEs AND INTEREST RATES

June 27 (Bloomberg) -- Federal Reserve Bank of Atlanta President Dennis Lockhart said, “I still anticipate that the very low interest-rate policy will remain in place for a considerable time after the end of asset purchases, and thus policy will remain highly accommodative.”

June 27 (Washington Post) -- William C. Dudley, the president of the Federal Reserve Bank of New York, “A rise in short-term rates is very likely to be a long way off. Not only will it likely take considerable time to reach the FOMC's 6.5 percent unemployment rate threshold, but also the FOMC could wait considerably longer before raising short-term rates.” The fact that inflation is coming in well below the FOMC's 2 percent objective is relevant here. Most FOMC participants currently do not expect short-term rates to begin to rise until 2015.


Fed Funds Futures – Market Expectations
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Aug-13
Oct-13
Dec-13
Feb-14
Apr-14
Jun-14
Aug-14
Oct-14
Dec-14
Feb-15
Apr-15
Jun-15
Aug-15
Oct-15
Dec-15
Feb-16
Apr-16
Jun-16
Fed Funds Futures

STATE OF THE GSEs AND INTEREST RATES

Current forecasts for several key economic variables are shown below (they reflect the chain we

	2012	2013				2014				2015
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1
Real GDP	0.4	1.8	1.4	2.1	2.6	3.0	3.0	2.8	2.9	3.2
GDP Deflator	1.0	1.2	0.5	1.3	1.3	1.5	1.5	1.6	1.6	1.8
Nominal GDP	1.3	3.1	2.0	3.5	4.0	4.6	4.6	4.5	4.6	5.1
CPI-U (annual rate)	2.1	1.5	0.1	1.9	1.7	2.0	2.1	2.2	2.3	2.3
CPI-CORE (a.r.)	1.5	2.2	1.6	1.6	2.0	1.9	2.0	2.2	2.3	2.3
91-Day Bills	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Prime Rate	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Federal Funds	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3
2-Yr Note	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.8
5-Yr Note	0.7	0.8	1.0	1.6	1.6	1.7	1.8	2.0	2.1	2.3
10-Yr Note	1.7	2.0	2.1	2.6	2.7	2.8	2.9	3.1	3.2	3.4
LT-Average	2.9	3.1	3.1	3.6	3.7	3.8	3.9	4.1	4.2	4.5

Source: Dr. Donald Ratajczak, PhD., Raymond James & Associates, Inc., Consulting Economist. Monthly Summary, dated July 11, 2013

THE AGENCY MARKET

▼

Differences in the Government Sponsored Enterprises (GSEs)

Not all Agencies Created Equally

Example I: Freddie Mac

- The Federal Home Loan Mortgage Corporation (known as "Freddie Mac") is a government chartered, stockholder/government majority owned corporation created in 1970 to increase the availability of mortgage credit for residential housing.

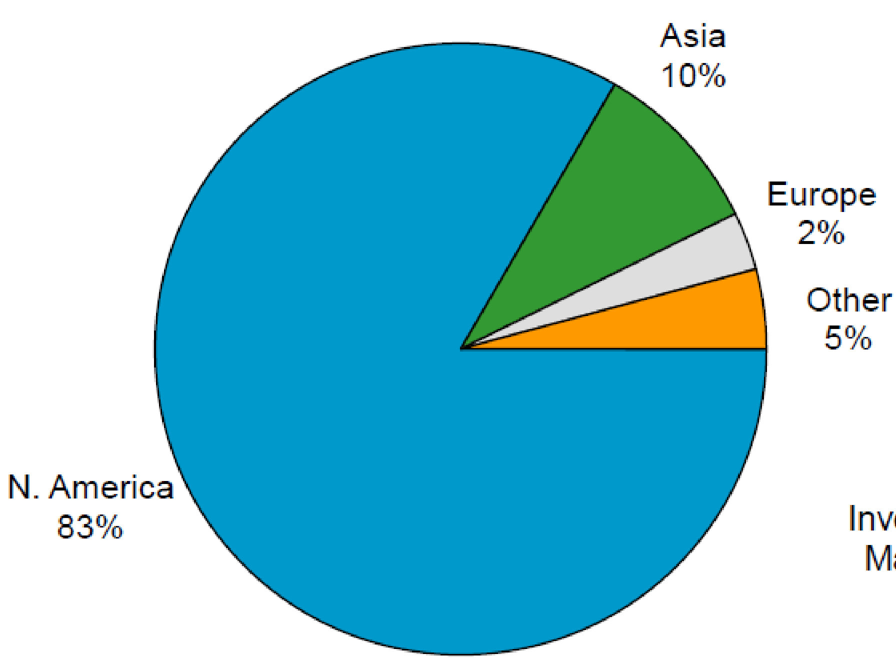
- This is accomplished primarily through purchasing residential loans from lenders and pooling them into to MBS which are sold in the secondary market

Freddie Mac Debt Highlights

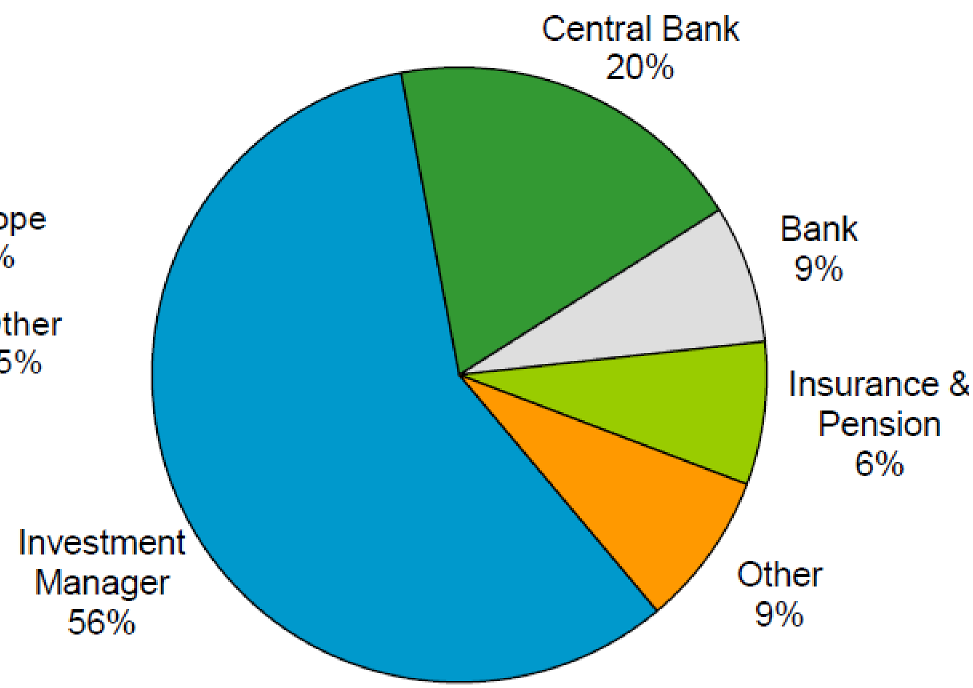
- Unsecured obligations of FHLMC
- *Not guaranteed* by the Federal Government
- Issued as senior debt
- Senior debt rated AA+/Aaa Neg./Stable outlook
- Website: www.freddiemac.com

Diversified and Broad Investor Appetite

Geographical Region

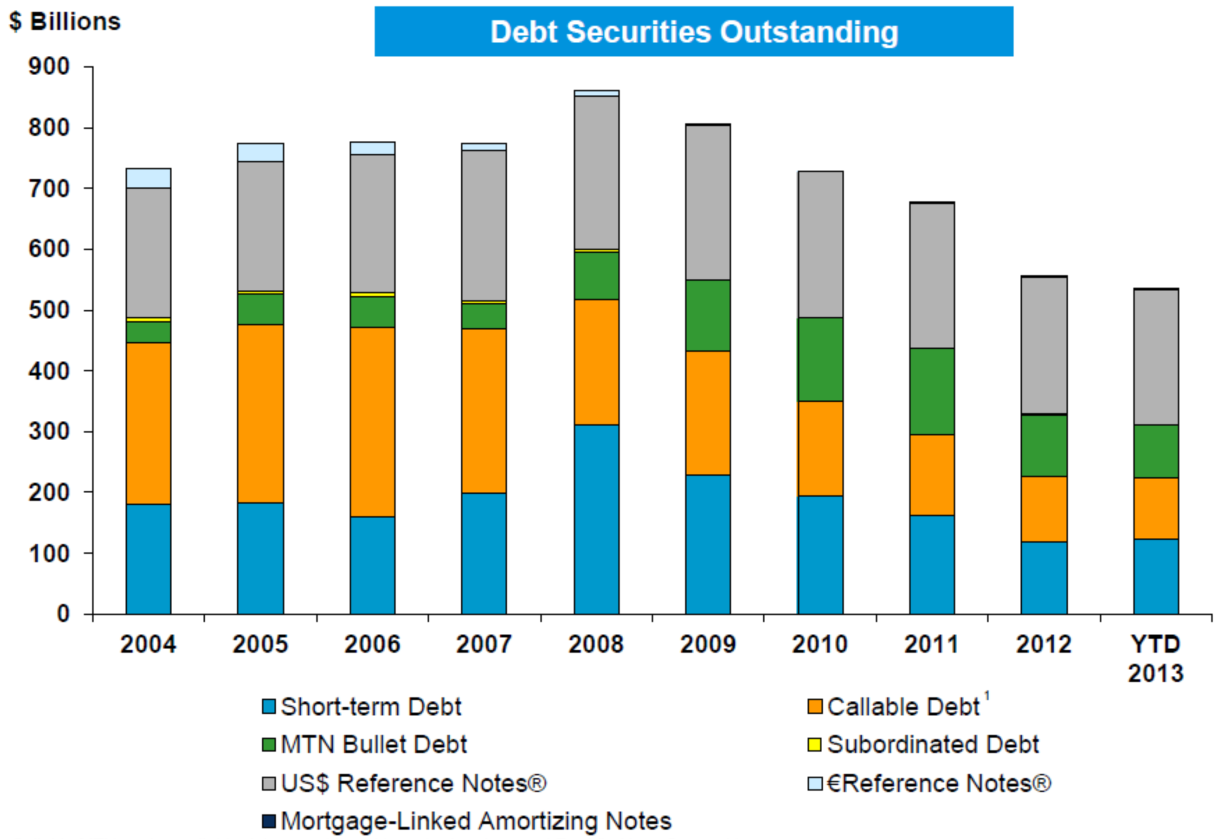


Investor Type



Note: Data reflects orders placed in the company's US$ Reference Notes® securities syndicated bond offerings. Percentages may not add up to 100% due to rounding.
Source: Freddie Mac. Data for the 12 months ended March 31, 2013.

Diversified and Broad Product Offerings



[1] Includes Callable MTNs, other callable debt securities with expired options and Freddie Notes® securities.

Note: Totals may not recalculate due to rounding. Excludes debt securities of consolidated trusts held by third parties. All figures represent par amounts in USD billions based on trade date. These figures could differ significantly from proceeds, amortized principal amount and book value figures, particularly for zero-coupon securities. For non-dollar denominated instruments, the U.S. dollar amounts reflected are based on the exchange rate at issuance. Short-term debt is debt with an original maturity of less than or equal to one year, except certain medium-term notes that have original maturities of one year or less are categorized as long-term debt.

Source: Freddie Mac. 2013 data as of March 31, 2013.

Fannie Mae

- The Federal National Mortgage Association (known as “Fannie Mae”) is a government-chartered stockholder/government majority owned corporation and is one of the largest suppliers of funds for residential mortgage loans.
- Fannie Mae purchases the mortgage loans from lenders and issues mortgage-backed securities (MBS) with the loans as collateral.

Fannie Mae Debt Highlights

- Unsecured obligations of FNMA
- *Not guaranteed* by the Federal Government
- Issued as senior and subordinated debt
- Senior debt rated AA+/Aaa Neg./Stable outlook
- Website: www.fanniemae.com

Major GSEs Outside of Direct Mortgage Industry Exposure

Federal Home Loan Banks

- The Federal Home Loan Bank system was organized in 1932 under the Federal Home Loan Bank Act.
- Organized Prior to Fannie Mae (1938) or Freddie Mac (1970)
- The Act was designed to restore confidence in the U.S. banking system and revive the post-depression housing market.
- The Act also created the need for a credit system to ensure the availability of funds to finance home loans.
- Thus, the primary purpose of the FHLB is to lend funds in the form of collateralized advances to member institutions for making home loans.
- Super Lien Authority.

Federal Home Loan Banks

- Super Lien Authority.

"FHLB advances are secured by pledges of high-quality collateral, such as 1-4 family mortgages. If there are FHLB advances in the institution at failure the FDIC as receiver promptly pays off the principal and interest to date. The FHLB then demands a prepayment fee under regulation. The regulation allows prepayment fees not to "exceed the present value of the loss attributable to the difference between the contract rate… and the reinvestment rate…"

"…the process gives FHLBs a preferred status that no other secured creditor receives, including the Federal Reserve Banks."

*Source: FDIC - **Advisory Committee on Banking Policy***

• FHLB Update

$ in billions	2008	2009	2010	2011	2012
Advances	929	631	479	418	426
Investments	306	284	330	271	266
Mortgage Loans Held for Portfolio(1)	87	71	61	53	50
Other	27	30	8	24	21
Total Assets	**1,349**	**1,016**	**878**	**766**	**763**
Retained Earnings	2.9	6.0	7.5	8.6	10.5
Total Capital (GAAP)	51	43	44	40	42.5
Regulatory Capital(2)	60	60	57	53	51
Regulatory Capital Ratio	4.42%	5.92%	6.53%	6.91%	6.69%
Net Income	1.2	1.9	2.1	1.6	2.6

(1) MPF®/MPP

(2) The difference between total capital (GAAP) and regulatory capital relates primarily to accumulated other comprehensive income (loss), which is excluded from regulatory capital, and mandatorily redeemable capital stock, which is included in regulatory capital.

Advances are Self-Capitalizing

Capital Generally Tracks Advances

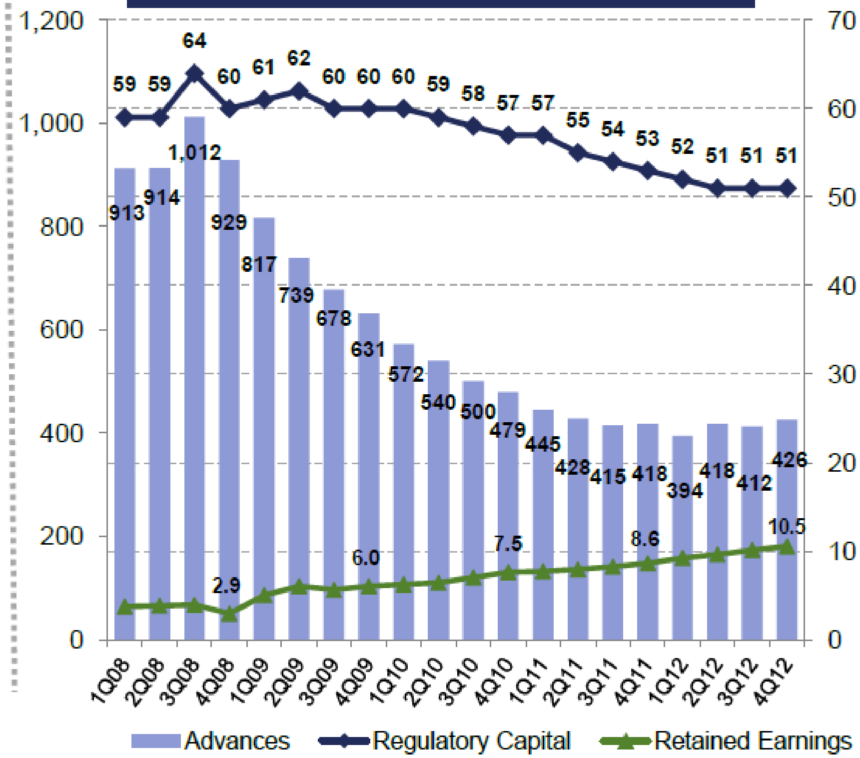
- Members are required to capitalize all advances, typically at 4.0% to 5.0% of principal borrowed
- FHLBanks typically repurchase capital stock once the associated advances have been repaid

Controlled Scalability: FHLBanks Have Ability to Hold Capital for up to 5 Years

- FHLBanks can manage the traditionally variable capital base to preserve capital during periods of economic stress

Retained Earnings have grown 250% since 2008 as the FHLBanks prudently strengthened this component of capital as a risk mitigant for debt holders and members.

Capital vs. Advances
($ in billions)



FHFA regulation prohibits member stock redemption if it could result in FHLBank undercapitalization

FHLBanks Manage Credit Risk by Fully Collateralizing all Advances

- Credit limits are established for each member and borrowing capacity is subject to ongoing review of their overall creditworthiness and collateral management practices
- Advances are secured by either a blanket lien, listing (specific pledge), or physical delivery of collateral
- UCC financing statements filed on all entities pledging assets
- Lending capacity regularly adjusted based on applicable haircuts on eligible collateral
- Whole loan mortgage collateral must be performing (no greater than 90 days delinquent) - most FHLBank policies are more restrictive and use a 30-60 day cutoff
- Securities collateral generally requires all securities to be rated single-A or higher and most must be delivered to the FHLBank or a securities custodian

No Credit Losses on Advances in System History

The "Super Lien" provides additional statutory support to the priority status of FHLBank security interests in member assets

FHLBanks perfect their secured interests in member assets and receive lien priority above all other creditors, including any receiver, conservator, trustee, or similar lien creditor (Competitive Equality Banking Act of 1987)

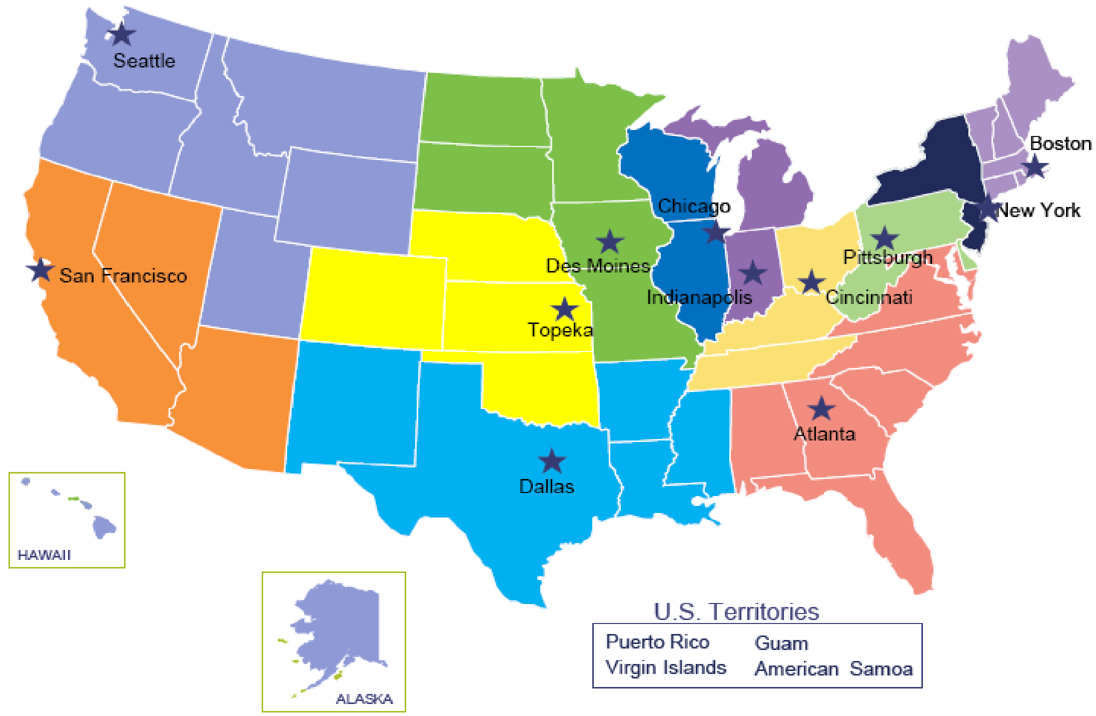
FHLB Debt Highlights

- Joint and several obligations of the system banks
- *Not guaranteed* by the Federal Government
- Issued as senior debt
- Senior debt rated AA+/Aaa Neg./Stable outlook
- Website: www.fhlb-of.com

All Senior Debt is Joint & Several

- The twelve FHLBanks are linked by i) a common mission to support housing, ii) a shared safety and soundness regulator (FHFA), and iii) a shared responsibility to repay debt obligations
- All senior debt securities issued through the Office of Finance (Consolidated Obligations) are joint and several obligations of the entire FHLBank System

	S&P	Moody's
Long-term Senior Debt Rating	AA+	Aaa
Outlook	Negative	Negative
Short-term Issuer Rating	A-1+	P-1



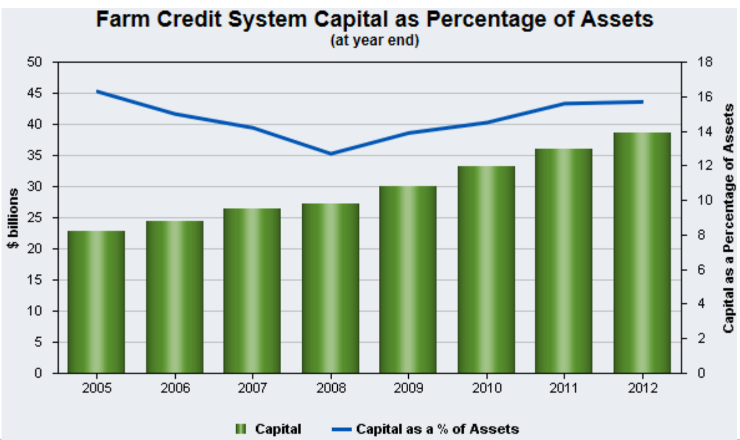
Farm Credit

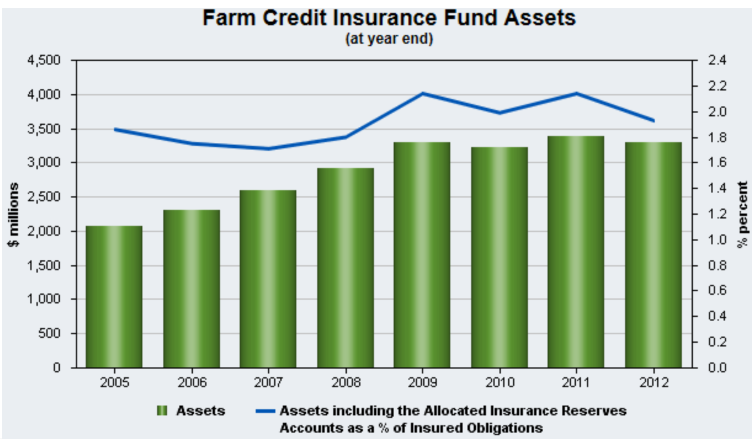
- Federal Farm Credit Bank – FFCB
  - Oldest of the GSEs
  - Co-operative Structure
  - Over $240 Billion in Assets
  - Debt Issuance Growing Fast – Becoming Player in Daily AA+/Aaa GSE Debt Issuance
  - Cumulative Net Income of over $2.5 Billion in each year over past 5 years.
  - Regulatory Oversight
    - Farm Credit Administration – Executive Branch
  - Added Protection
    - Farm Credit System Insurance Corp

Farm Credit

$ millions	3/31/13	3/31/12	12/31/12	12/31/11	12/31/10
Gross Loans	$191,797	$178,595	$191,904	$174,664	$175,351
Cash, Federal Funds and Investments	48,138	44,736	46,928	47,281	46,282
Farm Credit Insurance Fund Assets	3,344	3,425	3,298	3,392	3,226
Total Assets	247,505	231,457	246,664	230,411	229,973
Systemwide Debt Securities	199,005	186,650	197,966	184,780	188,773
Total Capital	39,644	36,616	38,609	35,940	33,251
For the period ended					
Net Interest Income	$1,677 *	$1,581 *	$6,477	$6,259	$5,890
Provision for Loan Losses	22 *	32 *	313	430	667
Net Income	1,142 *	1,052 *	4,118	3,940	3,495
Capital as Percentage of Assets	16.0%	15.8%	15.7%	15.6%	14.5%

* for the three months ended

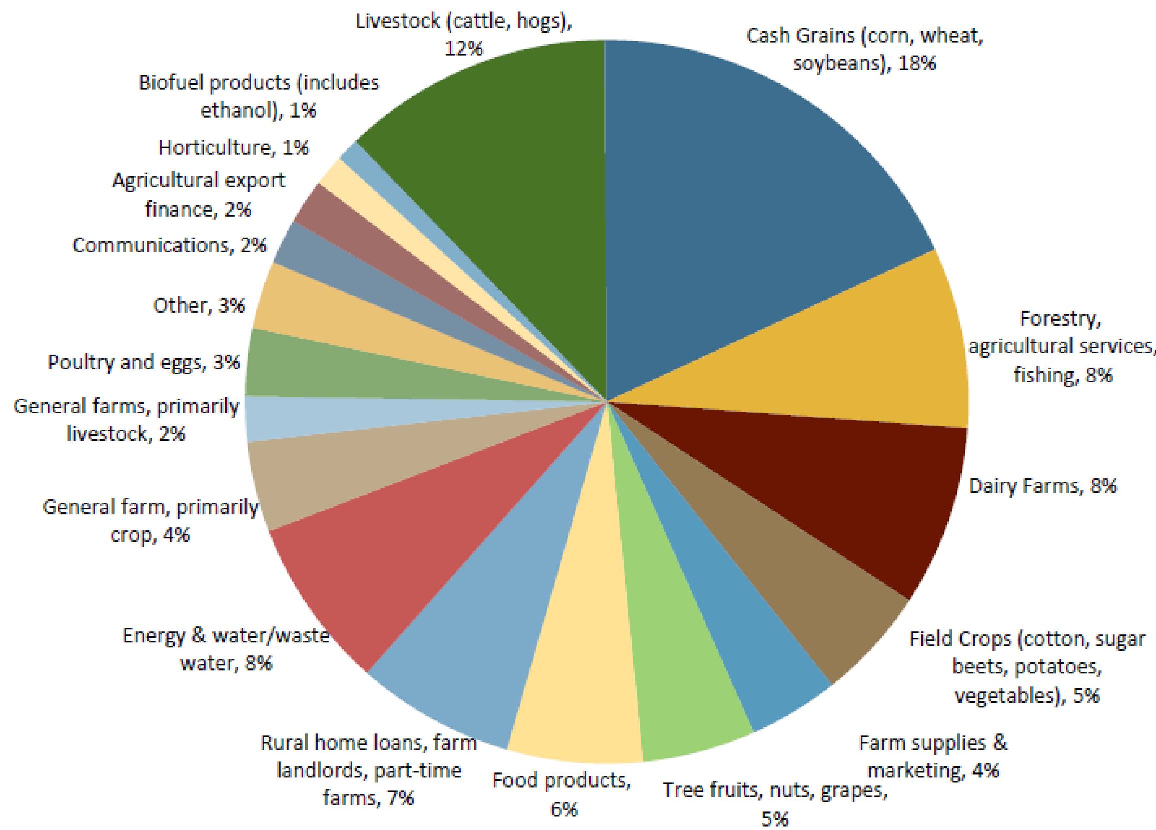




- Broad diversification within the Farm Credit System loan portfolio
- Highest concentration is 18%
- Diversification minimizes concentration risk

Farm Credit System Loan Portfolio

(at 12/31/12)



Source: Based on loans described in the Farm Credit System Annual Information Statement – 2012

- Farm Credit System required to lend in all 50 states, Puerto Rico and U.S. territories
- Loan portfolio has broad geographic diversification
- Highest concentration is 10%
- Geographic diversification minimizes overall effects of local agricultural events

Farm Credit System Loan Portfolio

(percent of total loan volume at 12/31/12)

STATE	%
California	9.68
Texas	6.5
Iowa	5.82
Illinois	4.92
Minnesota	4.61
Nebraska	4.17
Ohio	3.94
Indiana	3.22
Wisconsin	3.01
Missouri	2.8
Michigan	2.67
Kansas	2.66
South Dakota	2.42
North Carolina	2.36
Washington	2.34
Tennessee	2.29
North Dakota	2.29

STATE	%
Georgia	2.18
New York	2.13
Kentucky	2.04
Florida	1.9
Colorado	1.88
Arkansas	1.85
Oregon	1.79
Virginia	1.64
Pennsylvania	1.53
Idaho	1.52
Alabama	1.28
Oklahoma	1.22
Mississippi	1.19
Maryland	1.05
New Mexico	0.92
All other states	10.18
	100.00

Source: Farm Credit System Annual Information Statement - 2012

What is Fundamentally Backing Agency Debt Issues

- Freddie Mac – Assets of Corporation, primarily undivided retained pool of conforming mortgages.
- Fannie Mae – Identical in nature to Freddie Mac.
- Federal Home Loan Bank – Collateralized Advances to Member Financial Institutions with Overcollateralization Requirements on Bank Assets (Securities including Treasuries, Investments and Qualified Loans).
- Federal Farm Credit Banks – Member Loans Backed by Agricultural Assets.

The Mortgage GSEs

Recent Government Intervention

• Fannie Mae and Freddie Mac

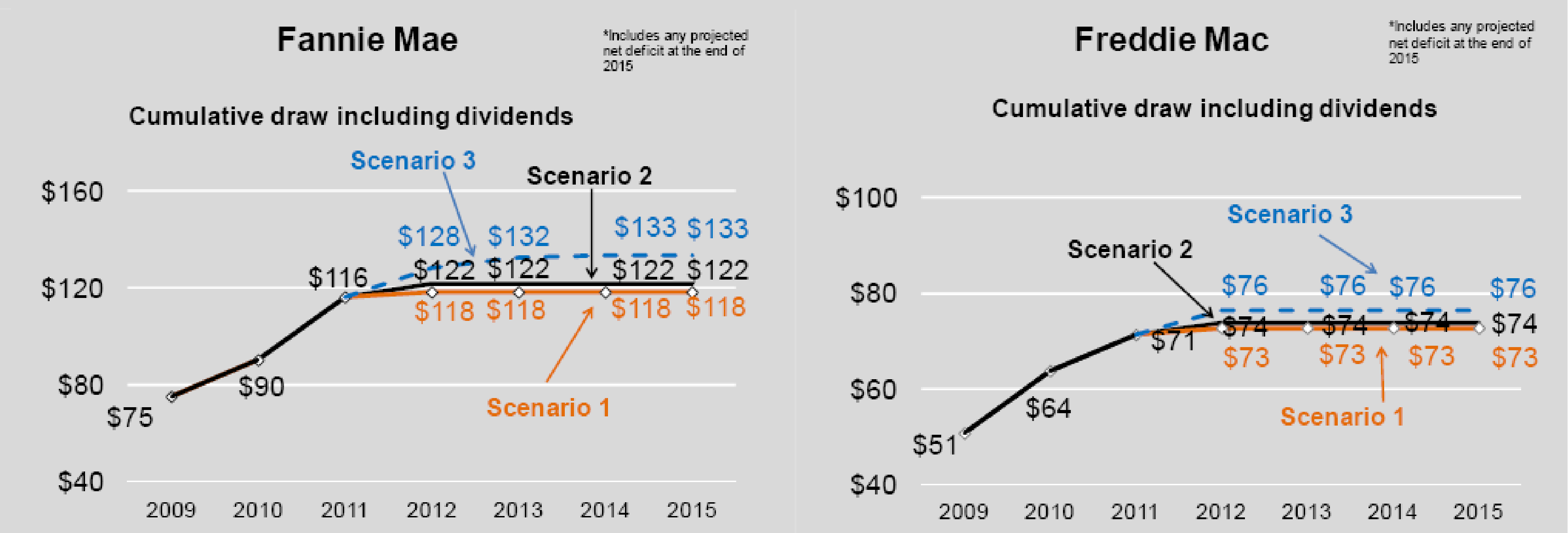
- Continue to Function in Conservatorship Essentially in the Same Manner
- Duration of the Conservatorship rests with the Director of FHFA – No Defined Timeline
- FHFA is Looking for Guidance from Congress/Administration for Resolution
- Financial Health Was Backed by Unlimited Commitment of Capital from the Treasury Department (announced Dec 24th, 2009) through Dec. 31, 2012. Has reverted back to remaining $200 Billion cap each.

Projected Treasury Draws and Dividends

To date, the Enterprises have drawn $187.5 billion from Treasury under the terms of the PSPAs. **Under the three scenarios used in the projections, cumulative Treasury draws (including draws required to pay dividends) at the end of 2015 range from $191 billion to $209 billion.** If dividend payments were subtracted from the projected cumulative draws, the net combined amounts for both Enterprises would range from $67 billion to $138 billion. In the previous projections released in October 2011, cumulative Treasury draws (including draws required to pay dividends) at the end of 2014 ranged from $220 billion to $311 billion.

For the selected scenarios, in the current projections, an additional $3 to $22 billion would be required to support the Enterprises over the projection period. **Freddie Mac would not require additional Treasury draws after 2012 in any of the three scenarios. Fannie Mae would not require additional Treasury draws after 2012 in two of the three scenarios. Furthermore, over the projection period the Enterprises pay additional dividends of $78 billion in Scenario 1 to $32 billion in Scenario 3.**

Figure 1: Cumulative Treasury Draws* *($ in billions)*



II. Senior Preferred Stock Purchase Agreements

What they do

The SPAs are the cornerstone of the financial support that the Treasury is providing to Fannie Mae and Freddie Mac. The SPAs effectively provide a very long-term federal guarantee to existing and future debtholders. As amended on December 24, 2009, each SPA commits the Treasury to provide additional support to each Enterprise through the end of 2012 in exchange for senior preferred shares. Treasury's financial commitment now equals the greater of $200 billion or $200 billion plus cumulative net worth deficits experienced during 2010, 2011, and 2012, less any surplus remaining as of December 31, 2012. Treasury's commitment protects the credit interests of all holders of the

How they work

The SPAs effectively guarantee senior and subordinated debt and Enterprise-guaranteed MBS by ensuring the solvency of each Enterprise. If an Enterprise's liabilities exceed its assets under generally accepted accounting principles, the Treasury must provide sufficient cash capital to eliminate that deficit in exchange for senior preferred stock. The SPAs legally bind the U.S. government, through the Department of the Treasury, to provide the necessary capital under the stated conditions. The FHFA is responsible for determining the net worth position of each Enterprise and whether the Treasury's obligation has been triggered.

When they expire

The Treasury's commitment to provide capital to an Enterprise pursuant to their SPA has no set expiration date. That commitment terminates only when one of the following events occurs:

- The Treasury has provided the full commitment of the greater of $200 billion or $200 billion plus cumulative net worth deficits experienced during 2010, 2011, and 2012, less any surplus remaining as of December 31, 2012.
- The Enterprise liquidates its assets. In the event of such a liquidation, the Treasury will fund any capital deficiency up to its commitment under the SPA. After that final funding, the funding commitment in the SPA would terminate.
- The Enterprise has repaid, defeased, or made other provision for all its mortgage guarantee obligations and debts.

The Justice Department has issued an opinion that each SPA creates a binding obligation on the United States to provide the financial backstop set forth therein, without time limit, for the duration of the SPA and the liabilities protected by the SPA.[3] Thus, the Treasury's commitment to provide capital to Fannie Mae and Freddie Mac is enforceable in federal court by the action of holders of debt issued or MBS guaranteed before or during the term of the commitment. The effective guarantee of Fannie Mae and Freddie Mac debt and MBS will continue as long as those instruments are outstanding.

What About the Credit Agencies Viewpoint

Overall View From the Ratings Agencies

- High level of financial flexibility due to broad access to capital markets
- Strong Demonstrated Government Support
- Disciplined approach to managing interest rate risk

Moody's Take on Fannie and Freddie

- "Moody's doesn't expect the resolution of Fannie Mae and Freddie Mac to have any negative implications for bondholders."

- "Fannie Mae's and Freddie Mac's investor base and the GSE's significant need for continued funding from the bond market makes it very difficult to impose losses on their bondholders. Foreign investors purchased $1.3 trillion of Agency- and GSE-backed securities during the quarter ended Sept. 30, 2009 and material amounts of the companies' debt and MBS are held by central banks."

- "The costs to the US Government should it decide to impose losses on bondholders of GSE debt securities would far outweigh any benefits."

Source: Moody's Investor Service report "Sector Analysis: Moody's views on Fannie Mae and Freddie Mac" January 2010

Structures Types and Characteristics

Main Structure Types

- Discount Notes
- Bullet Securities
- Callable Securities
    - Fixed Coupon Structures
    - Step-Up Structures
    - Floating Rate Structures
    - Step-Down Structures
    - More Exotic Structures (Range Notes, Dual Index Floaters, etc.)

Call Option Features

- Discrete or "Bermuda" Call
  - Callable on interest payment dates only by a predetermined call schedule.
- Continuous or "American" Call
  - Callable anytime with a specified period of notice (usually 10 or 30 days)
- One Time (1x) or "European" Call
  - Callable once after a specified lockout period. For example, a 5-year bond which is callable one-time after 2 years.
- "Canary" Call
  - A hybrid between a Bermuda call and a European call.
- "Verde" Call
  - A structure with frequent calls (quarterly), then spaced out calls, typically occurring on periodic step dates. Or sporadic calls.

Seniority Comparison Between Various Agency Structures

	Short term Discount Notes Benchmark Bills	Long term bullets Benchmark Notes/ Bonds/Others	Long term Callable Notes	MBS	Subordinated Benchmark/ Other Sub	Preferred Stock
Liquidity	Very high	Very high	High	Very high to moderate depending on type	High	Moderate
Level of Structural Complexity	Simple	Simple	Relatively simple call option held by Fannie Mae	Highly complex prepayment option held by homeowner	Fairly simple, except for subordination and interest deferral	Relatively simple call options held by Fannie Mae
Credit/Subordination	Highest seniority	Highest seniority	Highest seniority	Highest seniority	Below senior debt, but above preferred and common stock	Ranks above common, but below all debt categories
Spread	Spread above T-bill yields	Spread above T-note & T-bond yields	Spread above T-notes & T-bonds; spread pickup over Fannie Mae bullets	Spread above T-notes & T-bonds; spread pickup over Fannie Mae bullets & often callables	Spread above T-notes & T-bonds; spread pickup over senior Fannie Mae bullets	Highest spread category; relies on corporate investor DRD exemption
Maturity	1 day to 360 days	Over 1 year to 10 years	Over 10 years to 30 years	Typically 15 to 30 years	Over 1 year to 30 years	Perpetual; no maturity date
Interest rate call options	None	None	Call lockout periods typically ranging from 3-months to 10-years	Prepayable immediately at homeowners' option	None	Call and/or interest reset provisions

Questions & Answers

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