

This document is NOT a research report under U.S. law and is NOT a product of a fixed income research department. This document has been prepared for Qualified Institutional Buyers, sophisticated investors, and market professionals only.

To our U.K. clients: this communication has been produced by and for the primary benefit of a trading desk. As such, we do not hold out this piece of research (as defined by U.K. law) as being impartial in relation to the activities of this trading desk.

Bank of America provides investment banking and securities products domestically and offshore. Other products and services, including products and services that may be referenced in the accompanying materials, may be provided through affiliates of Bank of America. Bank of America prohibits employees from offering a favorable research rating or specific price target or changing a rating or target to get a mandate and Bank of America prohibits research analysts from being compensated for involvement in investment banking transactions except to the extent that such participation is intended to benefit investor clients. Copyright 2008 Bank of America. Bank of America, member NYSE/NASD/SIPC, is a subsidiary of Bank of America Corporation.

# CRA MORTGAGE BACKED SECURITIES & CRA CMO

EFFECTIVE INVESTMENT OPPORTUNITIES

2008 NATIONAL INTERAGENCY COMMUNITY  
REINVESTMENT CONFERENCE

Andy Kelman  
Principal  
Banc of America Securities, LLC

# Disclaimer

These materials have been prepared by Banc of America Securities LLC (“BAS”) for the BAS client or potential client to whom such materials are directly addressed and delivered (the “Company”) in connection with an actual or potential mandate or engagement and may not be used or relied upon for any purpose other than as specifically contemplated by a written agreement with BAS. These materials are based on information provided by or on behalf of the Company and/or other potential transaction participants, from public sources or otherwise reviewed by BAS. BAS assumes no responsibility for independent investigation or verification of such information and has relied on such information being complete and accurate in all material respects. To the extent such information includes estimates and forecasts of future financial performance prepared by or reviewed with the managements of the Company and/or other potential transaction participants or obtained from public sources, BAS has assumed that such estimates and forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of such managements (or, with respect to estimates and forecasts obtained from public sources, represent reasonable estimates). No representation or warranty, express or implied, is made as to the accuracy or completeness of such information and nothing contained herein is, or shall be relied upon as, a representation, whether as to the past, the present or the future. These materials were designed for use by specific persons familiar with the business and affairs of the Company and are being furnished and should be considered only in connection with other information, oral or written, being provided by BAS in connection herewith. These materials are not intended to provide the sole basis for evaluating, and should not be considered a recommendation with respect to, any transaction or other matter. These materials do not constitute an offer or solicitation to sell or purchase any securities and are not a commitment by BAS (or any affiliate) to provide or arrange any financing for any transaction or to purchase any security in connection therewith. BAS assumes no obligation to update or otherwise revise these materials. These materials have not been prepared with a view toward public disclosure under state or federal securities laws or otherwise, are intended for the benefit and use the Company, and may not be reproduced, disseminated, quoted or referred to, in whole or in part, without the prior written consent of BAS. These materials may not reflect information known to other professionals in other business areas of BAS and its affiliates.

BAS has adopted policies and guidelines designed to preserve the independence of its research analysts. BAS’ policies prohibit employees from offering research coverage, a favorable research rating or a specific price target or offering to change a research rating or price target as consideration for or an inducement to obtain business or other compensation.

BAS and its affiliates comprise a full service securities firm and commercial bank engaged in securities trading and brokerage activities as well as providing investment banking, asset and investment management, financing and financial advisory services and other commercial and investment banking services and products to a wide range of corporations and individuals, domestically and offshore, from which conflicting interests or duties may arise. In the ordinary course of these activities, BAS or its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions, for their own account or the accounts of customers, in debt or equity securities or loans of the Company, potential counterparties, or any other company that may be involved in a transaction. Products and services that may be referenced in the accompanying materials may be provided through affiliates of BAS. BAS is a subsidiary of Bank of America Corporation, the parent company of Bank of America, N.A. and other banks. BAS is a broker-dealer registered with the Securities and Exchange Commission and is a member of the New York Stock Exchange, Inc., the National Association of Securities Dealers, Inc. and the Securities Investor Protection Corporation.

BAS is required to obtain, verify and record certain information that identifies the Company, which information includes the name and address of the Company and other information that will allow BAS to identify the Company in accordance with the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) and such other laws, rules and regulations.

**BAS and its affiliates do not provide tax advice. Accordingly, any statements contained herein as to tax matters were neither written nor intended by BAS or its affiliates to be used and cannot be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on such taxpayer. If any person uses or refers to any such tax statement in promoting, marketing or recommending a partnership or other entity, investment plan or arrangement to any taxpayer, then the statement expressed herein is being delivered to support the promotion or marketing of the transaction or matter addressed and the recipient should seek advice based on its particular circumstances from an independent tax advisor. Notwithstanding anything that may appear herein or in other materials to the contrary, the Company shall be permitted to disclose the tax treatment and tax structure of a transaction (including any materials, opinions or analyses relating to such tax treatment or tax structure, but without disclosure of identifying information or, except to the extent relating to such tax structure or tax treatment, any nonpublic commercial or financial information) on and after the earliest to occur of the date of (i) public announcement of discussions relating to such transaction, (ii) public announcement of such transaction or (iii) execution of a definitive agreement (with or without conditions) to enter into such transaction; provided, however, that if such transaction is not consummated for any reason, the provisions of this sentence shall cease to apply.**

# CRA Challenges

- Too Many “A” Credit LMI Borrowers Pay High Interest Rates From Sub Prime Lenders
- Banks’ Declining Share of Mortgage Pie Limits Impact of CRA on LMI Lending
- Mortgage Company Loan Officer Compensation Structure Hinders LMI Lending
- Banks’ Investment Objectives Limit CRA Investments in Affordable Housing

# CRA Benefits of MBS & CMO

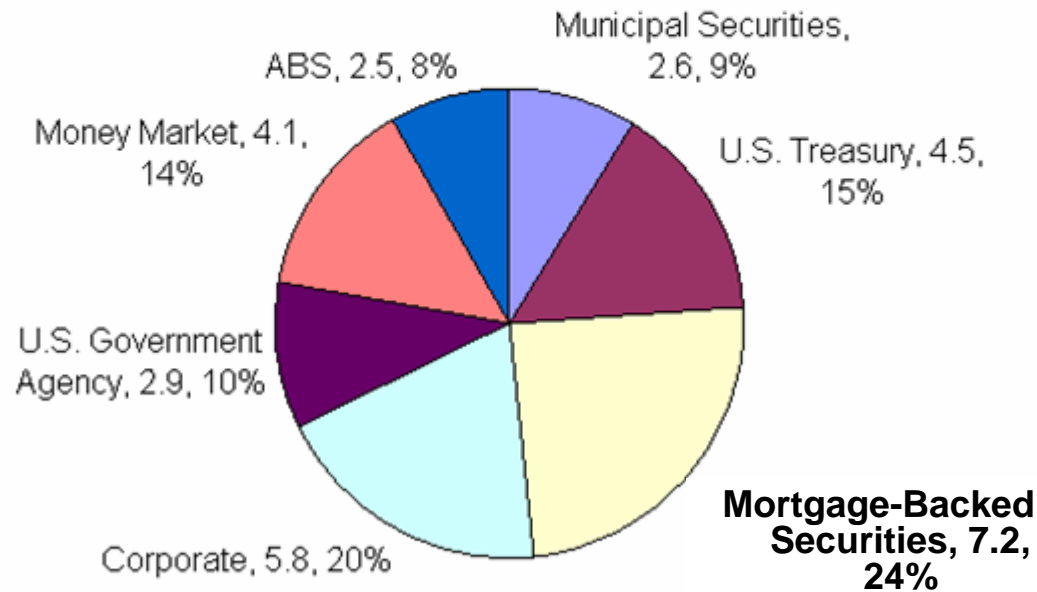
## **Premium Paid to Mortgage Originators**

- Can Increase Supply of Financing for Affordable Housing
- Can Help “A” Credit Borrowers Avoid Sub Prime Mortgages

# U.S. FIXED INCOME MARKET

Outstanding Bond Debt as of Q4 2007

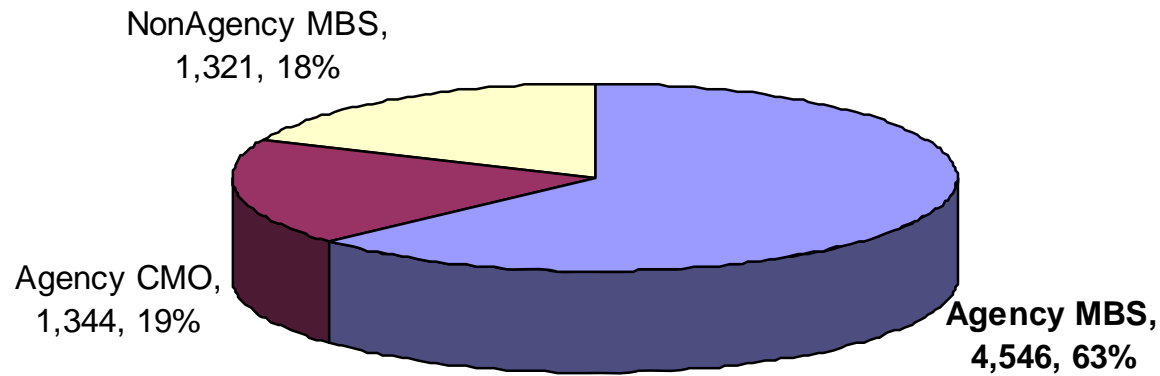
Total = 29.7 Trillion



Source: Securities Industry and  
Financial Markets Assoc.  
(SIFMA)

# Mortgage Securities Outstanding\*

(In Billions)



\*As of Year-End 2007

Source: SIFMA

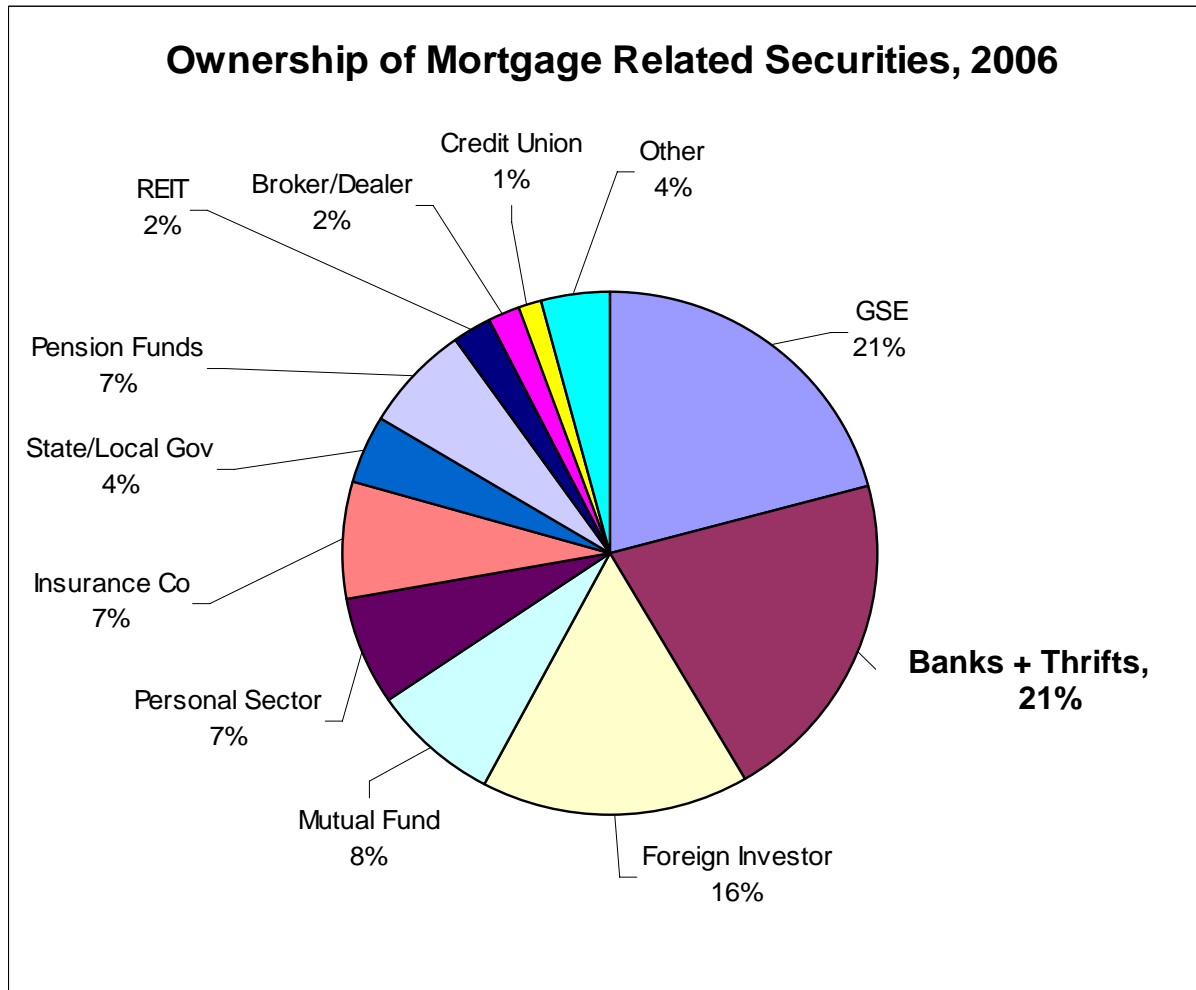
# GSE Affordable Goals\*

## INTERESTS ARE SIMILAR

- 2008 56% LMI Borrowers
- 2008 39% Underserved Areas

\* Set by HUD

# Mortgage Security Investor Base\*



•As of Year-End 2006  
Source: Inside MBS & ABS



# Bank Objectives

CRA + P&L =

Lending

↑ LMI Borrowers

↓ Credit Risk

↑ LMI Tracts

↓ Interest Rate Risk

↑ LTD Ratio

↓ Cost

↑ AA%

↑ Innovative

Conforming  
Whole  
Loans

Investment

↑ Amount

↓ Risk

↑ Innovative

↓ Cost

Targeted  
MBS &  
CRA CMOs

# Bank Investment Issues

- Risk versus Return
  - Credit Risk
  - Interest Rate Risk
  - Yield
- Capital Management
- Liquidity

# Credit Risk?

Agency (Freddie/ Fannie/Ginnie) MBS/CMO have the timely payment of principal and interest guaranteed. Agency unsecured debt is rated AAA and MBS/CMO are further backed by the mortgaged properties.

# Capital Management Benefits

- ◆ Reduced Capital Requirements

Only 20% risk-based capital

- ◆ Active Repurchase Market

Can earn \$ by lending via repo agreement

# Yield Benefits

- ◆ MBS have traditionally provided returns that exceed those of most other fixed-income securities of comparable quality. Thus, MBS often produce higher yields than Treasury and corporate bonds of comparable maturity and credit quality.

# Liquidity Benefits

- ◆ Agency MBS are extremely liquid. Investors can easily buy, sell or borrow against MBS. The liquidity of MBS is enhanced by the relative homogeneity of the assets, compared with corporate bonds (different issuers, industries and credit) or municipal bonds (state issued, Authority issued, revenue bond, etc.).

# Investment Test: CRA Benefits

- Compare With Other CRA Qualified Investments (Some Munis, Grants, Low Income Housing Tax Credits, Low Yield Deposits, CRA Mutual Funds):
  - Slam Dunk CRA Qualification
  - Credit Risk/ Guarantee
  - Attractive Yields
  - Enhanced Capital Management
  - Excellent Liquidity
  - Low Transaction Costs – No Management Fees
  - Saves Bank Personnel Resources

# What Makes A MBS “Qualified” for CRA?

- ◆ Targeted by Borrower Income
- ◆ Regulatory Opinion Letters



# MBS Characteristics

- Geography - Degree of Customization
  - AA or Larger
- LMI Borrower %
  - 51% → 100%
- LMI Tract?
- Pooling - 15 or 30 Year

# CRA MBS Loan Level Disclosure

POOL	STATE	MSANAME	COUNTY	LOAN AMOUNT	ADDRESS	CITY	ZIP	INCOME	RATE	LMIB**	LMIC**	CENSUS TRACT
	CA	41884	75	357,550	SAN JOSE AVE	SAN FRANCISCO	94112	67,200	5.875	2	2	255
	CA	41884	75	345,801	14TH AVE	SAN FRANCISCO	94116	57,000	6.125	2	4	308
	CA	41884	75	347,027	CRESCENT WAY	SAN FRANCISCO	94134	66,876	5.75	2	2	610
	CA	41884	75	338,484	KANSAS ST	SAN FRANCISCO	94107	68,400	5.875	2	4	227.01
	CA	41884	75	403,395	JOOST AVE	SAN FRANCISCO	94127	66,732	6	2	3	311
	CA	41884	75	258,840	EUREKA ST	SAN FRANCISCO	94114	61,044	6.125	2	3	205
	CA	41884	75	396,681	COLON AVE	SAN FRANCISCO	94127	60,000	5.875	2	4	310
	CA	41884	75	373,495	37TH AVE	SAN FRANCISCO	94116	68,700	6	2	3	353
	CA	41884	75	415,405	PEABODY ST	SAN FRANCISCO	94134	69,120	6.25	2	2	264.03
	CA	41884	75	375,796	32ND AVE	SAN FRANCISCO	94122	65,004	5.875	2	3	327
	CA	41884	75	411,938	AQUAVISTA WAY	SAN FRANCISCO	94131	68,400	6.125	2	4	305
	CA	41884	75	390,888	MONTEREY BLVD	SAN FRANCISCO	94131	68,400	5.875	2	3	311

**\$4,415,300**

These columns are calculated by BOA based on data supplied by CRA Wiz or the loan originator

The information above was provided to BOA by the originator of the mortgage loans and is provided to investors to document the CRA validity of the security. Investors in these securities should perform their own due diligence to ensure that the security backed by these loans addresses their CRA requirements.

BOA may monitor and record all messages. This message is confidential. It has been prepared solely for informational purposes and is not a solicitation, commitment, recommendation or offer to buy or sell any security. All information is indicative and subject to change without notice.

\*\*\*LMIC = Census Tract Income

\*\*\*LMIB = Borrower Income

\*\*\* Code 1 = Low Income, Code 2 = Moderate Income

# CRA MBS Yield Table

GRAB		Mtge		YT						
		<b>FN972639</b>		5.5% 1/ 1/38						
		31414QBG1 MBS:FNCL		ADU: <PAGE>						
		6.101(357)3 WAC(WAM)WALA MAR08		LOANS: 15						
				Vectors 99 <Go>						
65 FNCL 5.5 N										
<GO>										
MAR 1mo	16P .10	2/ 1/08:	4,033,828	next pay	4/25/08 (monthly)	CA				
'08 3mo	-	3/ 1/08:	4,029,509	rcd date	3/31/08 (24 Delay)	100				
6mo	-	factor	0.998929290000	accrual	3/ 1/08- 3/31/08	2007				
12mo	-					100				
Life	16 .1									
<b>3/12/08</b>		<b>YIELD TABLE</b>								
B. Median:		0bp <sup>276</sup>	+300bp <sup>101</sup>	+200bp <sup>108</sup>	+100bp <sup>142</sup>	-100bp <sup>1052</sup>	-200bp <sup>1626</sup>	-300bp <sup>1912</sup>		
Vary	PRICE	1	32	276	101	108	142	1052	1626	1912
		PSA	PSA	PSA	PSA	PSA	PSA	PSA	PSA	PSA
99-26		5.524	5.539	5.538	5.536	5.466	5.429	5.411		
AvgLife	5.93	11.17	10.82	9.34	2.02	1.42	1.25			
Mod Dur	4.57	7.35	7.18	6.44	1.84	1.33	1.17			
DATEWindow	4/08-12/25/37	4/08-12/25/37	4/08-12/25/37	4/08-12/25/37	4/08-10/25/25	4/08-5/25/14	4/08-4/25/10			
Spread	+294/AL	+200/AL	+202/AL	+219/AL	+398/AL	+392/AL	+389/AL			
		Treasury Curve - BGN 11:41								
		3mo 6mo -2- -5- -10- -30-								
		1.45 1.57 1.47 2.37 3.47 4.47								
		Format# 1-YT								
		Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000								
		Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000								
		Copyright 2008 Bloomberg Finance L.P.								
		3 10-Mar-08 11:42:28								

# CRA Investment Concerns of Medium Size Banks

- Modest Assessment Area Size Limits  
Opportunities
- Modest Capacity and Sophistication Level  
Limits Opportunities

# Section 228.23 Investment Test

- Scope of Test. The Investment Test Evaluates a Bank's Record of Helping to Meet the Credit Needs of Its Assessment Area(s) Through Qualified Investments That Benefit Its Assessment Area(s) Or a Broader Statewide or Regional Area That Includes the Bank's Assessment Area(s).

Source: CRA Regulations

# Regulatory Guidance

- “In addition, a retail institution that, considering its performance context, has adequately addressed the community development needs of its assessment area(s) will receive consideration for...community development activities ...located somewhere within a broader statewide or regional area .... Examiners will consider these activities even if they will not benefit the institution’s assessment area(s).”

Source: FFIEC CRA Q&A

# CRA MBS Also Help Small Banks

Compared with whole loan purchases:

- Safer – No Credit Risk
- More Liquid
- Lower Risk Based Capital Requirements
- Lower Transaction Costs/ Much less time consuming than whole loan purchases – No File Review

# CRA MBS Also Help Small Banks

## **SECTION .26--Small institution performance standards**

### **§\_\_.26(a) Performance criteria**

#### **§\_\_.26(a) - 1: May examiners consider .... lending-related qualified investments, when evaluating a small institution?**

**A1. Yes. Examiners can consider "lending-related activities," ..... and lending-related qualified investments, when evaluating the first four performance criteria of the small institution performance test.** Although lending-related activities are specifically mentioned in the regulation in connection with only the first three criteria (i.e., loan-to-deposit ratio, percentage of loans in the institution's assessment area, and lending to borrowers of different incomes and businesses of different sizes), examiners can also consider these activities when they evaluate the fourth criteria -- geographic distribution of the institution's loans.

Source: CRA Regulations



# CRA MBS Also Help Small Banks

§\_\_.26(a) - 5: Under the **small institution** performance standards, **how will qualified investments be considered** for purposes of determining whether a small institution receives a satisfactory CRA rating?

- A5. The small institution performance standards focus on lending and other lending-related activities. Therefore, **examiners will consider only lending-related qualified investments for the purposes of determining whether the small institution receives a satisfactory CRA rating.**

Source: FFIEC CRA Q&A

# MBS Investments: not Quite Perfect

- Bank Funding is Short Term (e.g., CDs and Money Market) – But, CRA MBS are Long Term Investments
- MBS Prepayments are not Predictable

Thus, Banks' Investment Objectives May Limit  
CRA MBS Investments in Affordable Housing

# CMO Investments: Closer to Perfect

**CMOs Compartmentalize  
Prepayment Risk of CRA MBS and Can  
Offer Shorter Term Investments**

CMOs Structure Mortgage Borrowers Payments into  
Multiple Cash Flow Streams, which are put into  
Bond Classes called Tranches

# Agency CMOs Are Attractive to Investors

- Initial Payment Streams (Tranches) Appeal to Banks Seeking Short-Term Investments
- Longer Term Streams Appeal to Pension Funds and Life Insurance Companies
- Credit Risk? – Same Guarantee of Timely Payment of Principal and Interest as **Agency MBS**

# CRA CMO Compliance Benefits Go Further than CRA MBS

- Leverage Additional Investments
- Shorter Investment than MBS so **Banks Can Invest More**
- **Innovative** and **Complex** Structure
- Not Routinely Provided by Private Investors
- Opportunity to Play a Leadership Role in Community Development

# Considerations in Choosing a Investment Provider

- Do They Actually Own the Bonds?
- Are You Getting the Best Price?
- Do You Have to Sign a Contract in Advance?
- Will Loans Fall Out?
- Will They Make a Market/ i.e., Can You Recoup Some of Your Premium if You Sell the Bonds?
- Are There Other Ways in Which the Relationship Will Add Value to Your Bank?

# CRA Mortgage Backed Securities and CMOs

EFFECTIVE INVESTMENT OPPORTUNITIES

For More Information. . .

*Andy Kelman*

*(212) 933- 2006*

*Andrew.Kelman@BofAsecurities.com*

# Disclaimer

## **Important Information Concerning U.S. and U.K. Trading Strategists**

Trading desk material is NOT a research report under U.S. law and is NOT a product of a fixed income research department of Banc of America Securities LLC, Bank of America, N.A. or any of their affiliates (collectively, “BofA”). Analysis and materials prepared by a trading desk are intended for Qualified Institutional Buyers under Rule 144A of the Securities Act of 1933 or equivalent sophisticated investors and market professionals only. Such analyses and materials are being provided to you without regard to your particular circumstances, and any decision to purchase or sell a security is made by you independently without reliance on us.

Any analysis or material that is produced by a trading desk has been prepared by a member of the trading desk who supports underwriting, sales and trading activities.

Trading desk material is provided for information purposes only and is not an offer or a solicitation for the purchase or sale of any financial instrument. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Although information has been obtained from and is based on sources believed to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. All opinions, projections and estimates constitute the judgment of the person providing the information as of the date communicated by such person and are subject to change without notice. Prices also are subject to change without notice.

With the exception of disclosure information regarding BofA, materials prepared by its trading desk analysts are based on publicly available information. Facts and ideas in trading desk materials have not been reviewed by and may not reflect information known to professionals in other business areas of BofA, including investment banking personnel.

Neither BofA nor any officer or employee of BofA accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

To our U.K. clients: trading desk material has been produced by and for the primary benefit of a BofA trading desk. As such, we do not hold out any such investment research (as defined by U.K. law) as being impartial in relation to the activities of this trading desk.



# Disclaimer

## **Important Conflicts Disclosures**

Investors should be aware that BofA engages or may engage in the following activities, which present conflicts of interest:

The person distributing trading desk material may have previously provided any ideas and strategies discussed in it to BofA's traders, who may already have acted on them.

BofA does and seeks to do business with the companies referred to in trading desk materials. BofA and its officers, directors, partners and employees, including persons involved in the preparation or issuance of this report (subject to company policy), may from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as market-makers or advisors, brokers or commercial and/or investment bankers in relation to the products discussed in trading desk materials or in securities (or related securities, financial products, options, warrants, rights or derivatives), of companies mentioned in trading desk materials or be represented on the board of such companies. For securities or products recommended by a member of a trading desk in which BofA is not a market maker, BofA usually provides bids and offers and may act as principal in connection with transactions involving such securities or products. BofA may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in trading desk material.

Members of a trading desk are compensated based on, among other things, the profitability of BofA's underwriting, sales and trading activity in securities or products of the relevant asset class, its fixed income department and its overall profitability.

The person who prepares trading desk material and his or her household members are not permitted to own the securities, products or financial instruments mentioned.

BofA, through different trading desks or its fixed income research department, may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from the information presented. Those reports reflect the different assumptions, views and analytical methods of the persons who prepared them and BofA is under no obligation to bring them to the attention of recipients of this communication.

This report is distributed in the U.S. by Banc of America Securities LLC, member NYSE, NASD and SIPC. This report is distributed in Europe by Banc of America Securities Limited, a wholly owned subsidiary of Bank of America NA. It is a member of the London Stock Exchange and is authorized and regulated by the Financial Services Authority.

© 2008 Bank of America Corporation