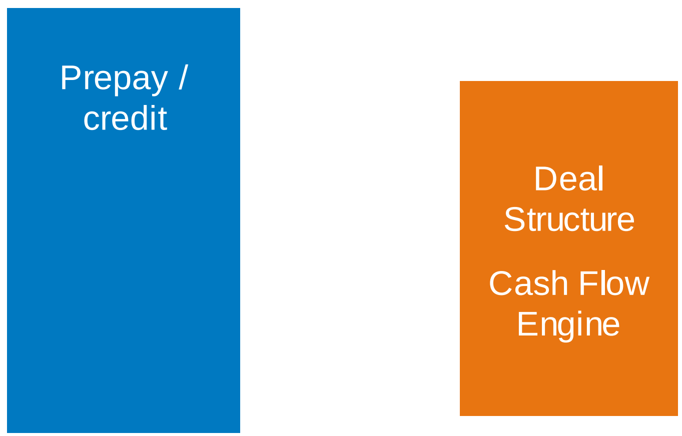
BlackRock Solutions Non-Agency RMBS Methodology

For professional clients / qualified investors only

BlackRock Solutions Non-Agency RMBS Analytical Framework

Prepayment and credit models provide a consistent and efficient analytical tool for modeling Non-Agency RMBS

Experienced portfolio managers add their views and market insight to the process



Current status is the most important performance indicator

HPA and borrower/collateral credit characteristics continue to provide strong prediction power

Different product types, status, and seasoning have different parameters

Prepayment + Delinquency / Default + Severity ⇨

Prepayment

TU Current Combined LTV
TU Vantage score
Incentive
Credit Inquiries
Loan Size

TU revolving acct utilization
TU Debt to Income estimator
Penalty Term
Housing Momentum

Spread at Origination
EHS
Age
Purpose
Seasonality
IO/non-IO
Reset Structure
Delinquency rate

Delinquency / Default

TU Current Combined LTV
TU Vantage score
Month in delinquency
timeline
Credit burnout
Judicial State

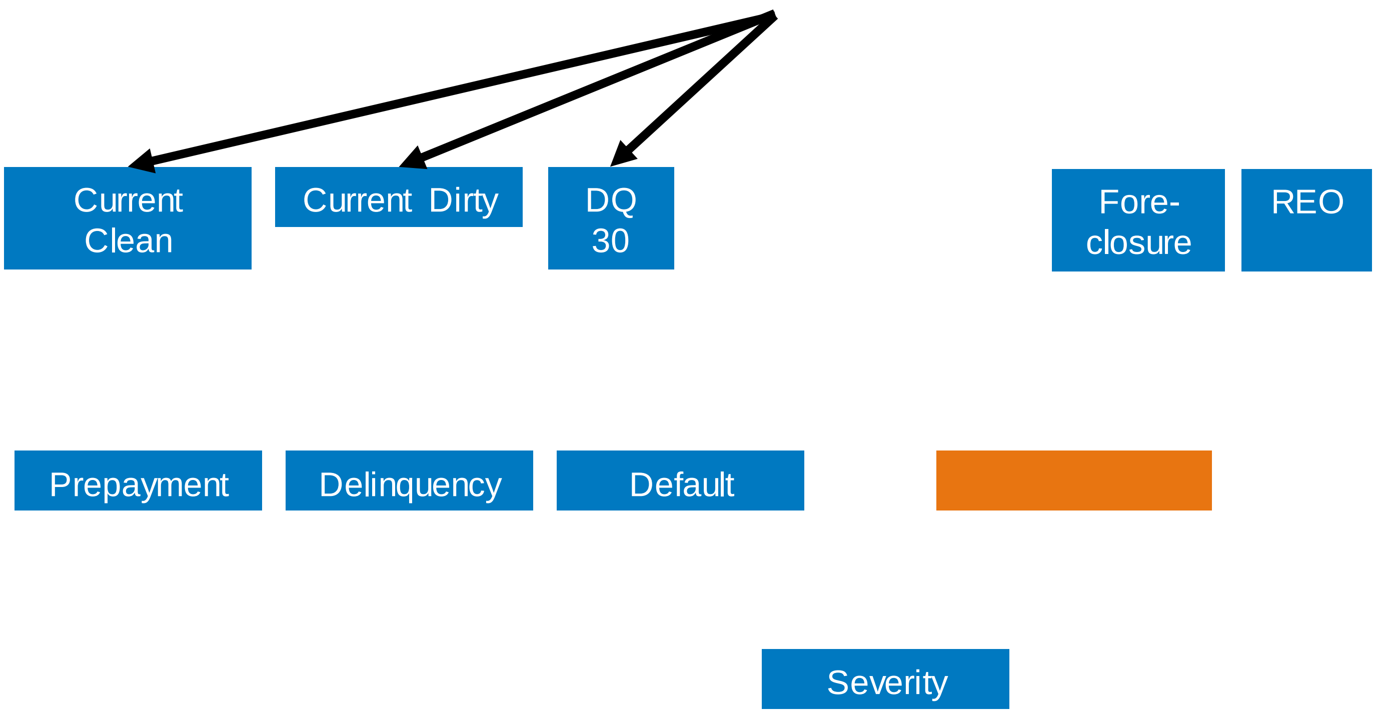
TU revolving acct utilization
TU Debt to Income estimator
TU length of credit history
TU co-borrower information
Unemployment
Age
Documentation
Purpose
Payment Shock
Spread at Origination
Property Type
Loan Size
Occupancy
Prepayment Speed

Severity

Current First Lien LTV
Loan Size
Outstanding advance
Advance Rate
Month in delinquency

Individual loans are bucketed into clusters

Non-Agency Model Structure



Liquidation Type Assumption

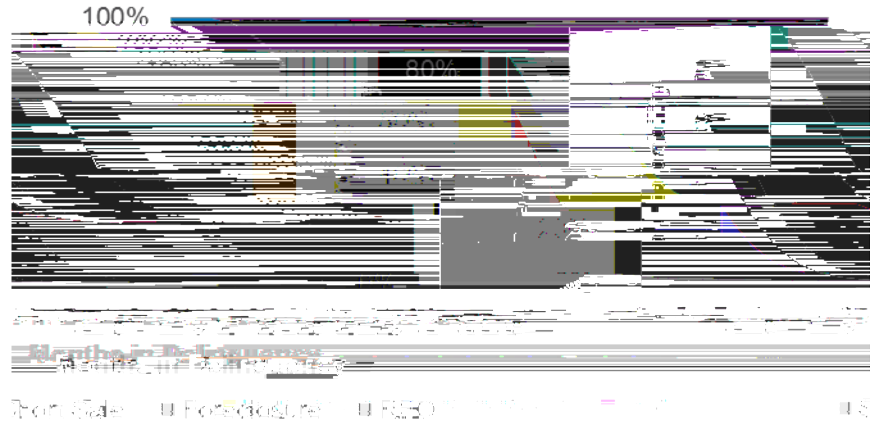
Liquidation type (short sale, FCL, or REO) has a large impact on loss severity

The empirical liquidation distribution and estimated months in delinquency are used to

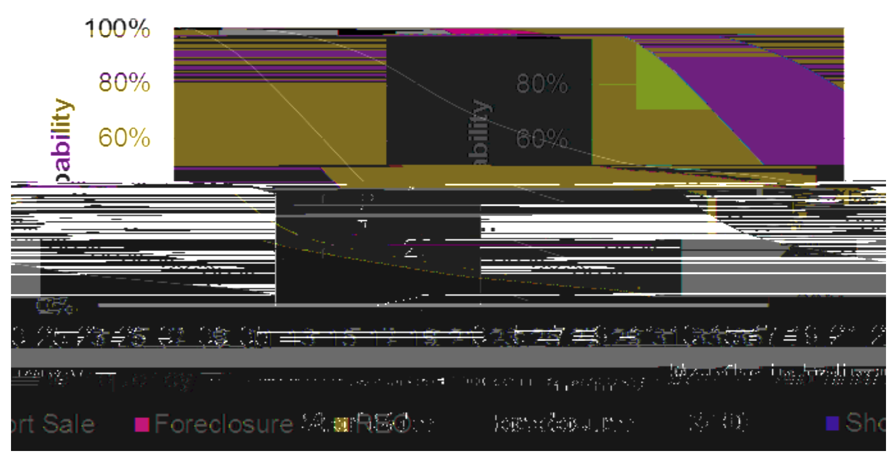
liquidation type

- The top chart shows the likelihood of liquidation from short sale, foreclosure or REO by months in delinquency for Alt-A loans
- The bottom chart shows the difference in servicer behaviour
  - Some servicers perform short sales more aggressively than the average among servicers
- Models use months in delinquency to project the liquidation type probabilities going forward and take servicer differences into consideration

Alt-A Empirical Liquidation Type Distribution by Months in Delinquency



Alt-A Empirical Liquidation Type Distribution by Months in Delinquency for Specific Servicer



Source: BlackRock Solutions and Loan Performance

Loss Severity Model

Loss severity model combines accounting and statistical components

Statistical factors are used to capture variation due to factors outside the accounting model

- Liquidation type, collateral type
- Occupancy, bankruptcy, loan purpose
- Geographic factors, property type
- Current delinquency status

Updates have been made to both accounting and statistical factors

- Upward adjustment on loss severity for REO loans
- Increased liquidation costs as a function of projected months in delinquency
- Advancing history for the loan is used to estimate outstanding advancing

Components of the Loss Severity Model

Months in Delinquency Projection

Project loan/cluster level months in delinquency using a transition matrix approach

Stop-advance Rate Model

Project stop-advance rate for delinquency clusters dynamically

HPA Projection

Account for the collateral deficiency

Liquidation Type Estimation

Estimate probabilities of short-sale, foreclosure/REO sale based on months in delinquency

Severity Models

Using both accounting components and statistical factors to project loss severity

Modified Loan Models

The modified loan model suite contains:

- Model to project delinquency and default on previously modified loans
- Model to project future modifications
- Adjustments to the prepayment model

The model for existing modifications is fully integrated into the seasoned loan framework

- Separate delinquency projections for current clean, current dirty, 30-day delinquent, 60-day delinquent, 90+ day delinquent
- The standard prepayment model is dialed to account for slower prepayments among modified loans

Future modifications are projected based on collateral type and delinquency status

- Calibrated to recent modification trends
- Modification rates vary across deals given their delinquency distribution

Source: BlackRock Solutions and CoreLogic