



PIMCO Advisory's Approach to RMBS Valuation

December 8, 2010



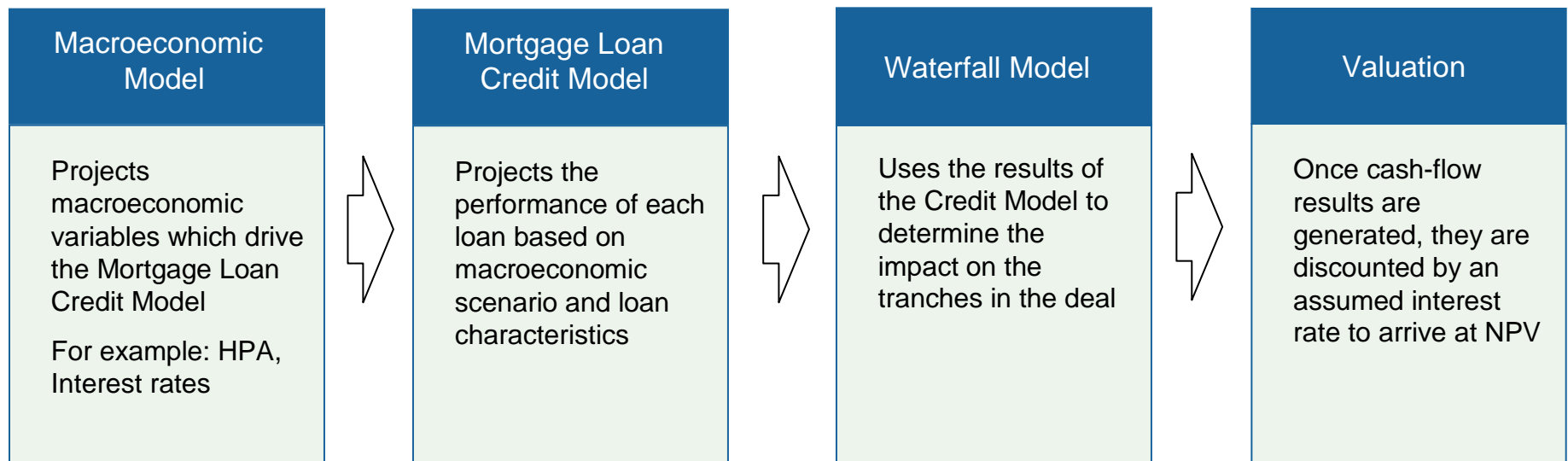
The Building Blocks of Valuation

Credit sensitive v00(g)ds47428(o)Cnspe

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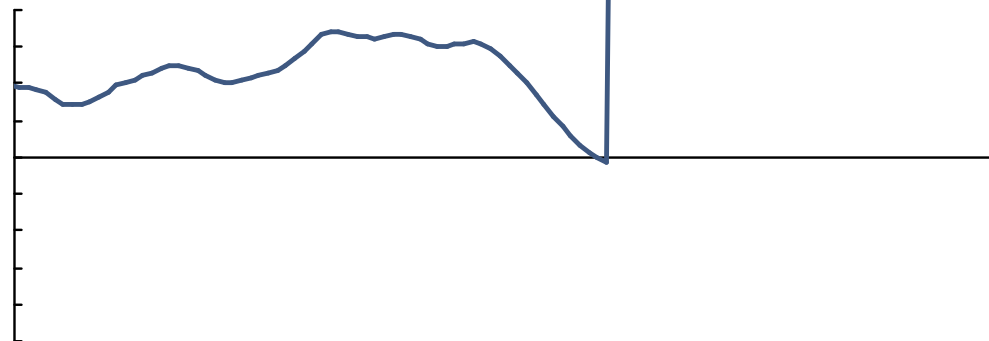
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National House Price Situation

As Of September 30, 2010

YoY		MoM		Peak Month	Peak to Current	Peak to Trough
Current	Previous	Current	Previous			
0.5%	1.6%	-0.8%	-0.5%	Apr-06	-29.6%	-31.8%



SOURCE: S&P, Haver Analytics







Mortgage Loan Credit Model

The role of a mortgage loan credit model is to project mortgage default, prepay and loss severity on a loan basis – and by extension – on a mortgage-backed security

PIMCO Advisory's loss expectations are determined by employing proprietary loan level quantitative models

The proprietary loan-level default model has the following three major components:

- Incorporates borrower and property characteristics based on attributes known at the time of origination
- Includes dynamic performance data from origination including borrower payment, interest rates, and home price histories
- Incorporates future economic information on regional home-price appreciation and mortgage/interest rates

We employ different sub-models by credit (subprime, Alt-A etc.) and product type (fixed vs. adjustable)

The output of the model is a set of CPR, CDR and severity vectors

Loan-Level Default Analysis

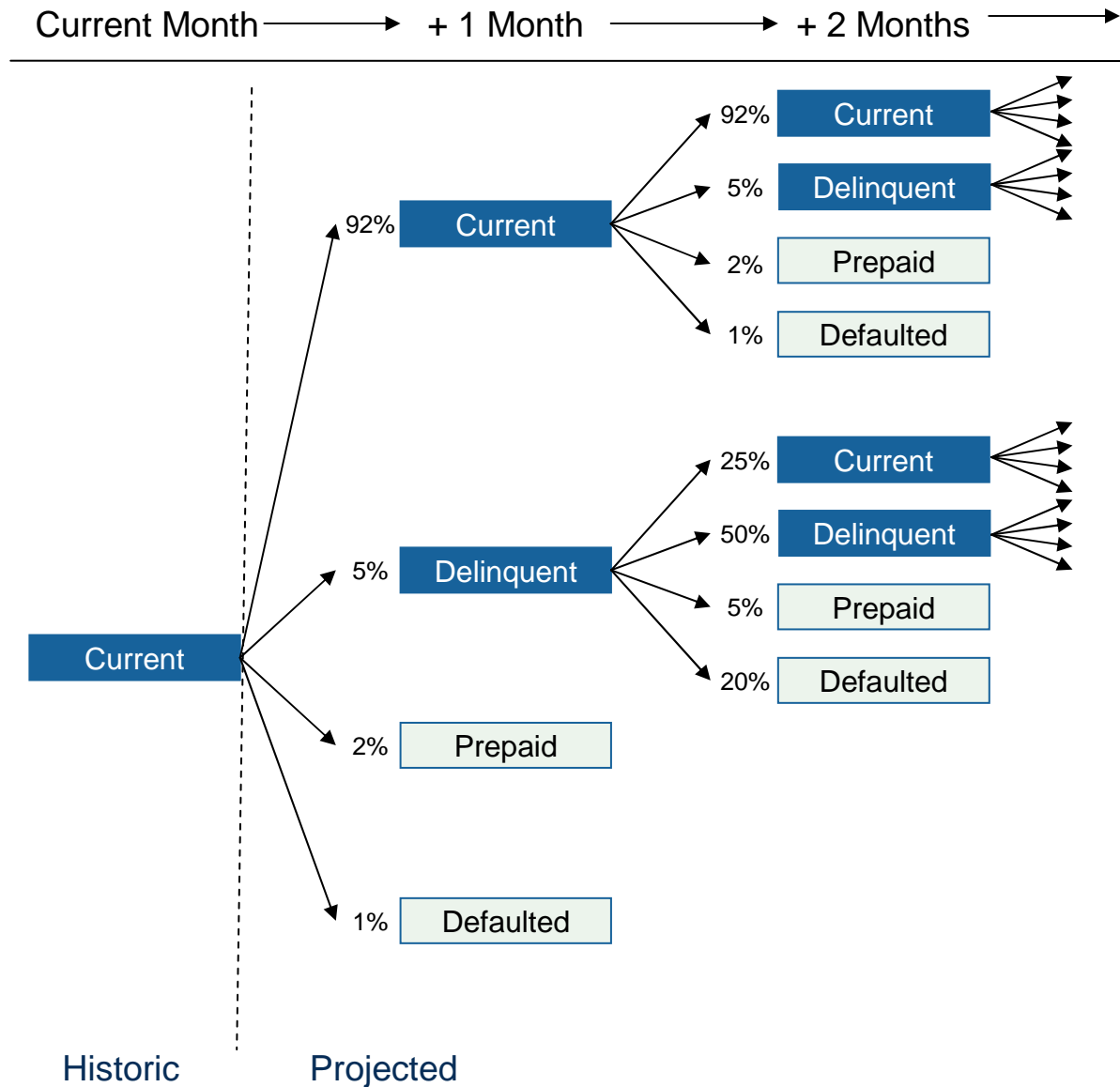
PIMCO Advisory's loan level process models each individual loan in each securitization

Historical loan performance is a critical factor in projecting future performance

- In our model, loans are classified into two groups: performing and non-performing
- The model incorporates not only the current state of the loan but also the historical performance of the loan

Illustrative Path-Dependent Simulation

- Each loan is modeled individually over time
- Historic data tells us whether loan is current or delinquent as of today
- Loans may transition between current and delinquent states, and can terminate through prepayment or default
- Transition probabilities are a function of static, dynamic or path-dependent variables



Sample for illustrative purposes only.



Loss Severity Analysis

For the purposes of loss severity, the same default probabilities are applied to maintain consistency. Additional components that contribute to the ultimate loss severity analysis include:

- Collateral deficiency (unpaid balance less REO sales price)
- Lost interest (accrued as servicer advances)
- Expenses (legal, property taxes, brokerage fees)
- Mortgage insurance considerations

The explanatory variables incorporated in the default probability have a linear relationship with loss severity. Historical trends can help predict loss severity sensitivities to inputs such as:

- Static Factors (at origination)
 - FICO
 - Property type
 - Occupancy (owner, investor/second)
 - Lien-Position
 - Mortgage Insurance
 - Judicial vs. non-judicial state
- Dynamic Factors
 - Interest-rate
 - Loan Balance
 - HPA/HPD
 - Current marked-to-market LTV
 - Regional Foreclosure Timelines
 - Time/Loan Age

Sample Adjustment: Accounting For Loan Modification



Model Curves are Input into the Cash-flow Engine and Allocated According to Each Deal's Waterfall Structure

Group 1	Group 2
A1A	A2D ^K
A1B	A2A
A1C	A2B
	A2C
	A2D ^K
M1	
M2	
M3	
M4	
M5	
M6	
B1	
B2	
B3	
B4	
B5	

Bonds get paid principal and interest and losses at a particular point in time

The deal's legal documents determine the waterfall rules

6



Group 1		Group 2			
AV1 (37.25%) i	AF1 (0.00%) i	AF2 (37.25%) i	AF3 (37.25%) i	AF4 (37.25%) ik	
		M1 (25.67%)			
		M2 (14.76%)			
		M3 (8.12%)			
		M4 (1.99%)			
		M5 (0.00%)			
		M6 (0.00%)			
					B5 (0.00%)%)%)%)%7.5 5 25pp

