

Targeted Energy Efficient Mortgages in an MBS Portfolio

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Index and Manager Data provided by



What is an Energy Efficient Mortgage (EEM)?

- An “add-on” to a basic FHA mortgage that allows
 - Buyers to finance energy improvements into their mortgage
 - Buyers to reduce utility bills

EEM vs. EEH

- EEM is a mortgage product adding additional dollars to the loan amount.
- EEH is a house built to state and local codes and the 1992 Model Energy Code and therefore energy efficient. It is assumed that the house is energy efficient. Borrower is eligible for stretch ratios (31/43).

The Home Energy Rating

- An analysis of the present energy usage and a proposed energy package designed to improve energy efficiency.
 - A physical inspection of a house, generally including diagnostic tests.
 - A computer analysis.
 - Includes the estimated cost of the Energy Package and the present value calculations
- Often expressed on a 5 star scale.

See: [Financing Energy Efficiency with FHA](#), HUD.

Who Does the Home Energy Rating?

- A trained Rater does the inspection and diagnostic tests
- A HERS (Home Energy Rating System) Provider who meets national guidelines prepares the report using a computer model.
- Issue: Limited availability of trained Raters.

Limited Availability of Home Energy Raters

Our plan for dealing with the limited availability--and the cost-- of home energy raters or energy consultants is to have a utility company partner supply these resources. Why?

- They are in the best position to evaluate and secure these resources.
- They may have home energy raters or energy consultants on staff.
- They may have a financial incentive to do so
 - The Utility may get City, State or Federal tax credits for this work.
- Utility company participation as home energy raters or energy consultants enhances their reputation as a socially responsible entity.
- It also serves to increase the social return on the MBS investment.

(Note that a utility has not agreed, at this point, to serve in this role.)

What Lender can do EEMs?

- Any FHA approved lender can originate, process and close an EEM

How an EEM Saves Money

| | Standard Mortgage | With EEM |
|--------------------------|-------------------|-----------|
| Energy Improvement Costs | | \$3,000 |
| Value | \$100,000 | \$100,000 |
| Mortgage Amount | \$97,750 | \$100,750 |
| Downpayment | \$2,250 | \$2,250 |
| P&I | \$689 | \$710 |
| Energy Savings | \$0 | (\$50) |
| Actual payment | \$689 | \$660 |

More Benefits

- Lower down payment
- More discretionary money
- More comfortable & healthier home
- Better for the environment
 - Improved efficiency same as taking one car off the road

Benefits to the MBS investor

1. Investor will earn the return available on comparable default-free (US Treasury) investments.
2. Investor's reputation as a socially responsible entity will be enhanced. This has value in the marketplace.
3. EEM's will tend to "promote the economic development of urban communities characterized by a high proportion of poor people and people of color."
4. Program run on an efficient, cost effective basis:
GNMA, FNMA guarantees will provide:
 - a. Principal protection
 - b. Market rate earnings
5. The financial institutions in the program will have a larger product base upon which to make home mortgage loans.
6. Program will have a large social impact.

The CIR EEM Hypothesis

Why would investors prefer MBS securities comprised of EEM's? If defaults are lower, then:

- Lower default implies lower prepayment.
- Lower prepayment implies more certain cash flows.
- More certain cash flows (relative to MBS alternatives) have value in the investment marketplace.
- This value results in higher performance, relative to the MBS index, of EEM MBS portfolio versus generic MBS portfolio IF THE DEFAULT HYPOTHESIS IS TRUE.

(Note that this is the same argument we made in 1990 and 1991 concerning mortgage loans to minorities.)

The CIR EEM Hypothesis

If investors prefer MBS securities comprised of EEM's, then loan originators will, too. This is not the case. Why?

- Loan originators do not know about the program.
- Loan originators know about the program, but overestimate costs associated with the program.
- Loan originators know about the program, but underestimate benefits associated with the program.
- Loan originators know about the program, but underestimate consumer demand for the program.

ETI MBS Portfolio

Below we list economically targeted investments created by Creative Investment Research, Inc. that are ERISA compliant, perform well financially and address social concerns:

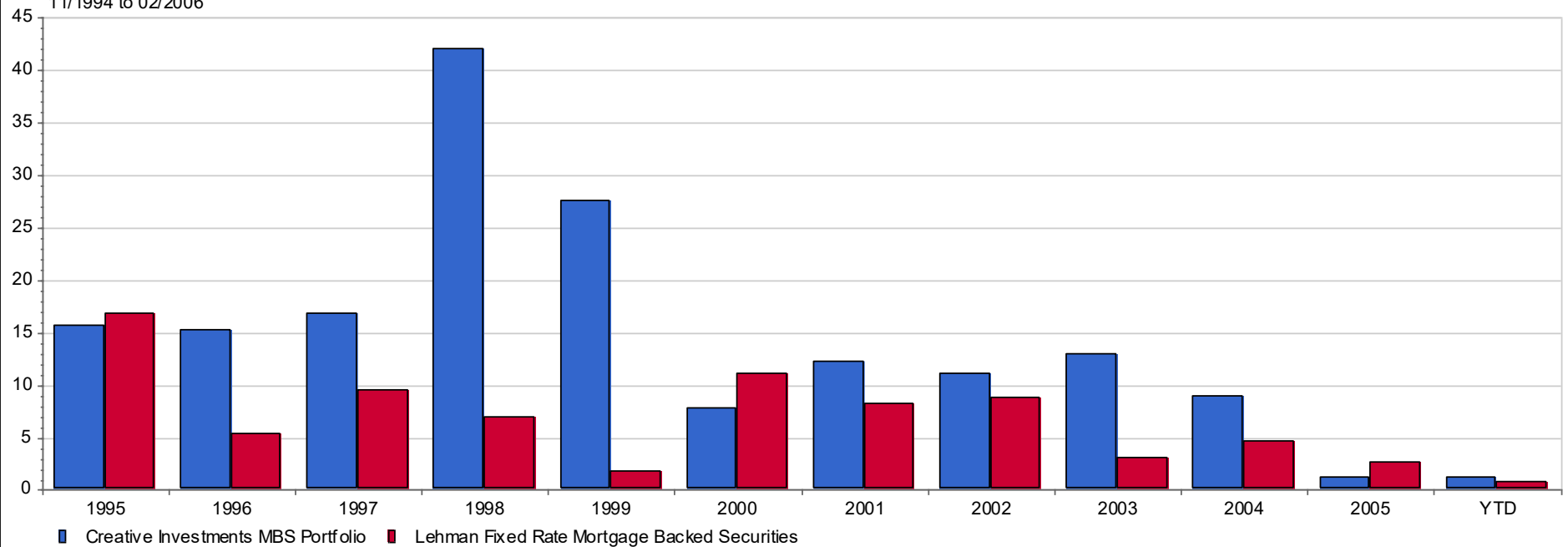
| Pool | Client | Originator | Social Characteristics |
|----------|------------------------------|--------------------------------------|--|
| FN374870 | Faith-based Pension Fund | National Mortgage Broker | Mortgages originated by minority and women-owned financial institutions serving areas of high social need. |
| FN296479 | | | |
| FN300249 | | | |
| GN440280 | Utility Company Pension Fund | Minority-owned financial institution | |
| FN374869 | | | |
| FN376162 | | | |
| FN254066 | Faith-based Pension Fund | Local bank | Predatory lending remediation |

Creative Investment (CIR) ETI MBS Portfolio Performance

The data provided in the next section are for information only, used to explain one possible outcome from our investment process. The Creative Investment (CIR) MBS portfolio consists of all MBS pools listed on the prior slide. Performance figures have not been audited. CIR MBS portfolio annualized returns have been calculated based solely on the return of principal and interest and do not reflect the reinvestment of principal and interest. We note that past performance is not indicative of future results, which may vary. The figures for the Creative Investment MBS portfolio do not reflect the deduction of any fees or expenses which would reduce returns. The figures for the Lehman Brothers MBS index may reflect the reinvestment of principal and interest but do not reflect the deduction of any fees or expenses which would reduce returns. Indices are unmanaged. Investors cannot invest directly in indices. Unlike government-backed Treasuries, mortgages involve prepayment risk. All return data was calculated by Factset SPAR, from source data provided by Lehman Brothers and Creative Investment Research, Inc.

Calendar Year Chart: Annualized Return

11/1994 to 02/2006



Calendar Year Report: Annualized Return

Period: 11/1994 to 02/2006

Currency: USD

Riskfree: Citigroup BIG Treasury Bill (3 M) (LOC)

Benchmark: Lehman Fixed Rate Mortgage Backed Securities

| Description | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | YTD |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|
| Creative Investment ETI MBS Portfolio | 15.70 | 15.26 | 16.88 | 42.05 | 27.53 | 7.75 | 12.20 | 11.06 | 13.02 | 8.95 | 1.15 | 1.15 |
| Lehman Fixed Rate Mortgage Backed Securities | 16.80 | 5.36 | 9.48 | 6.97 | 1.85 | 11.17 | 8.22 | 8.74 | 3.05 | 4.70 | 2.62 | 0.79 |

Next Steps

Please contact me to discuss how we would like to work with you to create additional MBS pools and products.

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