**Term Sheet**

Caps: We had a strike price of 3.75% for year 2 and 4% for year 3.

Payoff Rules: We had to calculate the GNMA Rate using the following formula:

GNMA Rate = (previous GNMA Rate + periodic rate, spot rate + seasoned Rate, initial GNMA Rate + Lifetime rate)

CPR (prepayment rate) = GNMA Rate - (spot rate + teaser rate) > 40bps, then CPR Rate = 0.4 Otherwise, CPR Rate = 0.1

Client Payoff = (Libor at time t=1,2,3+5 basis points) \* 500 million + a repo of 500 million dollars – (500 million \* (Libor at t=1,2,3 -35 basis points, for t=1,2,3) – (500 million at t=3)

Firm Payoff = (500 million at t=0) + (prepayment + interest for t=1…,10) – 500 million \*(Libor at times t = 1,2,3) – 500 million at t =3