

Mortgage Business Plan

Mortgage Team
Boston, June 4, 2013

Agenda

Market Environment

Competitive Landscape

Our Historical Background

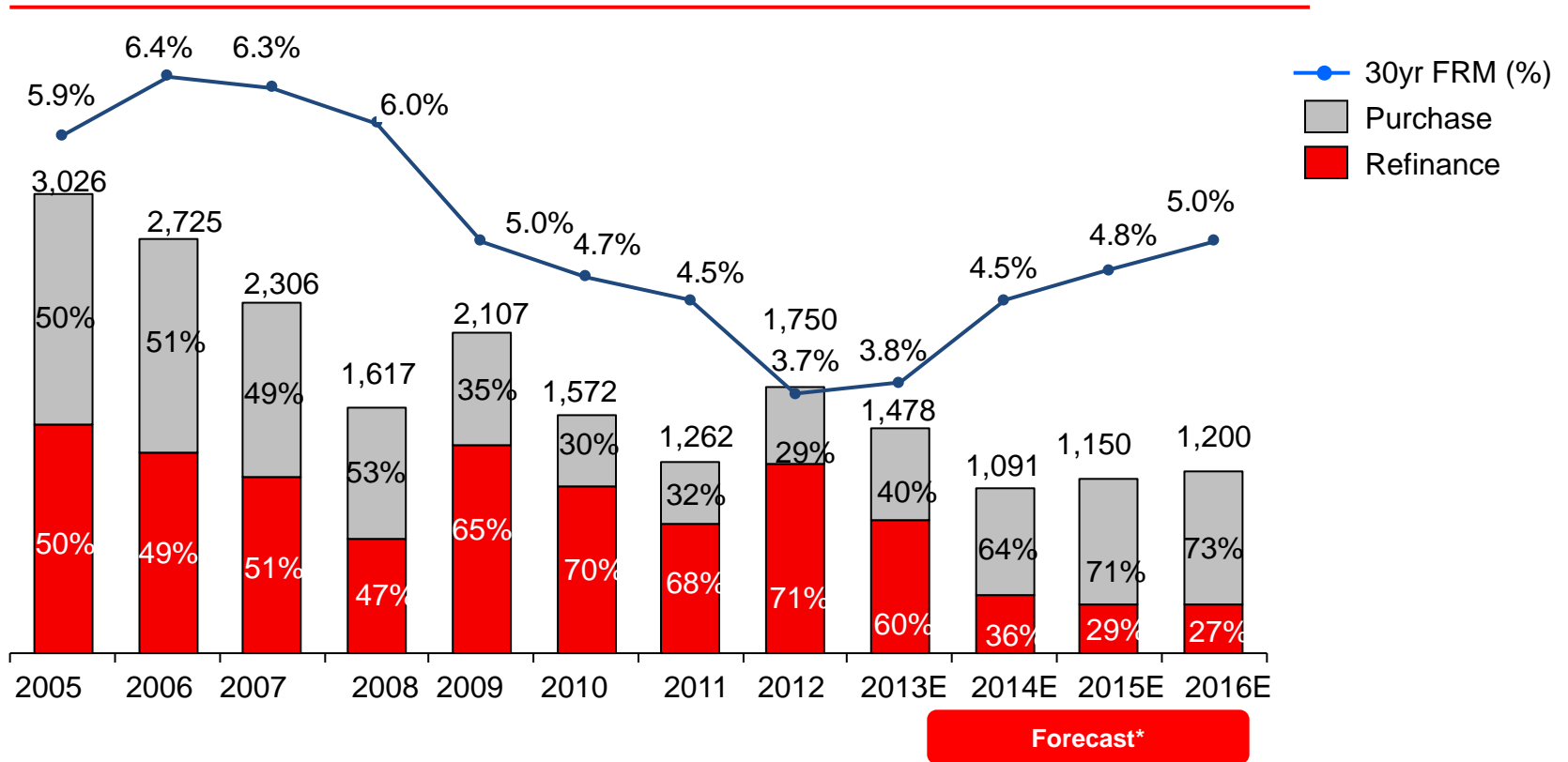
Organic Growth Plan

Appendix

US mortgage market

Origination volume continues the decreasing trend due to decrease in refinance volumes with slight uptick in purchase volumes...

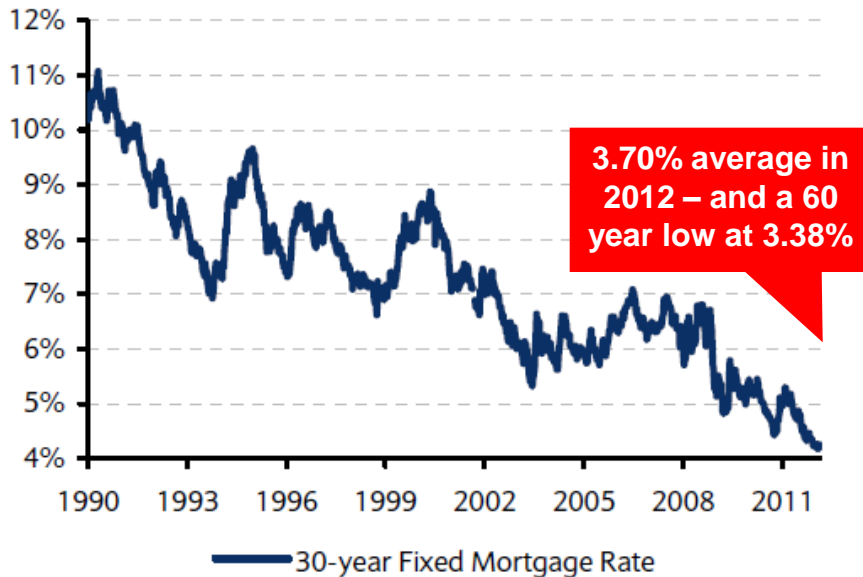
US residential mortgage originations (\$Mn)



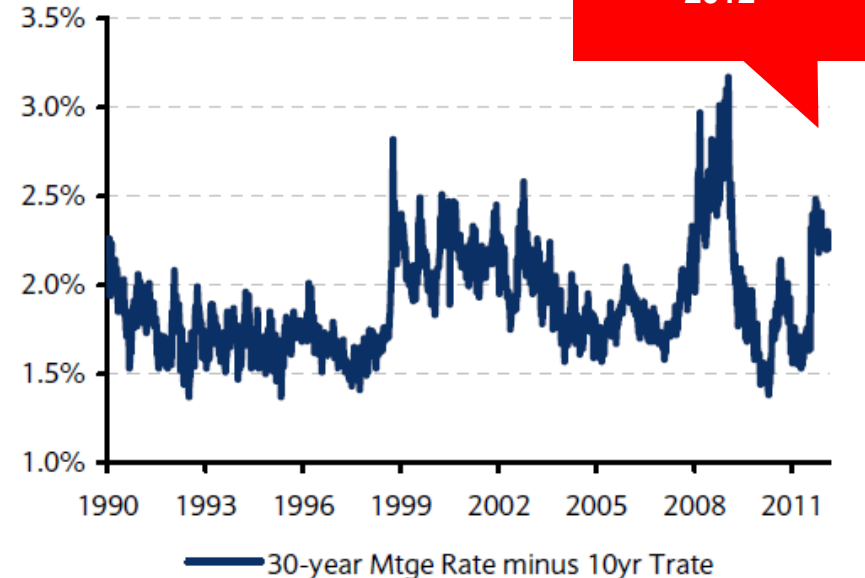
Mortgage yield and spread

Reached a 60 year minimum yield in mortgages...

Historical 30-year Fixed Mortgage Rate (%)



Mortgage spread (%)



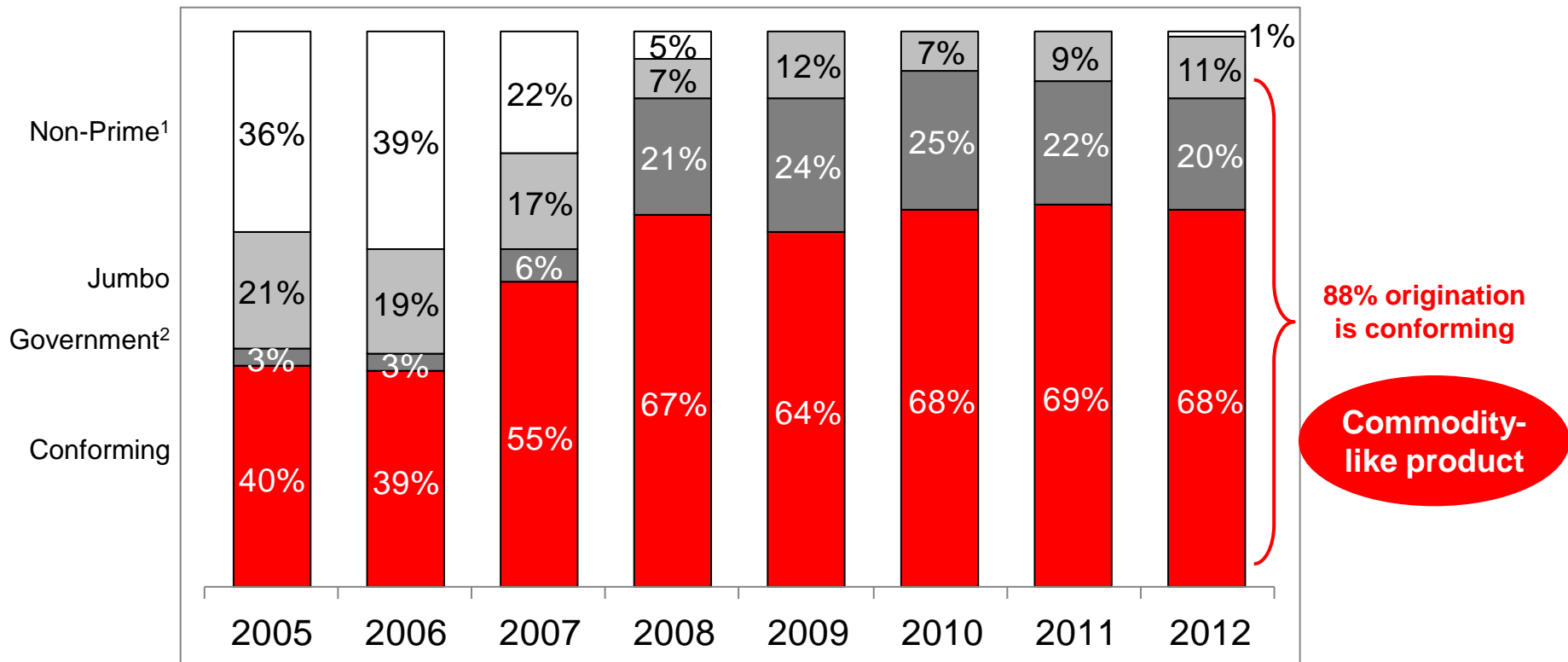
...but with maximum levels in the mortgage margins

Source: Barclays Capital

Origination per product

The mortgage is a commodity-like product...

Total mortgage originations by product (%)



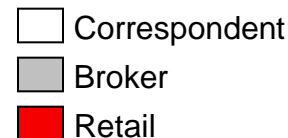
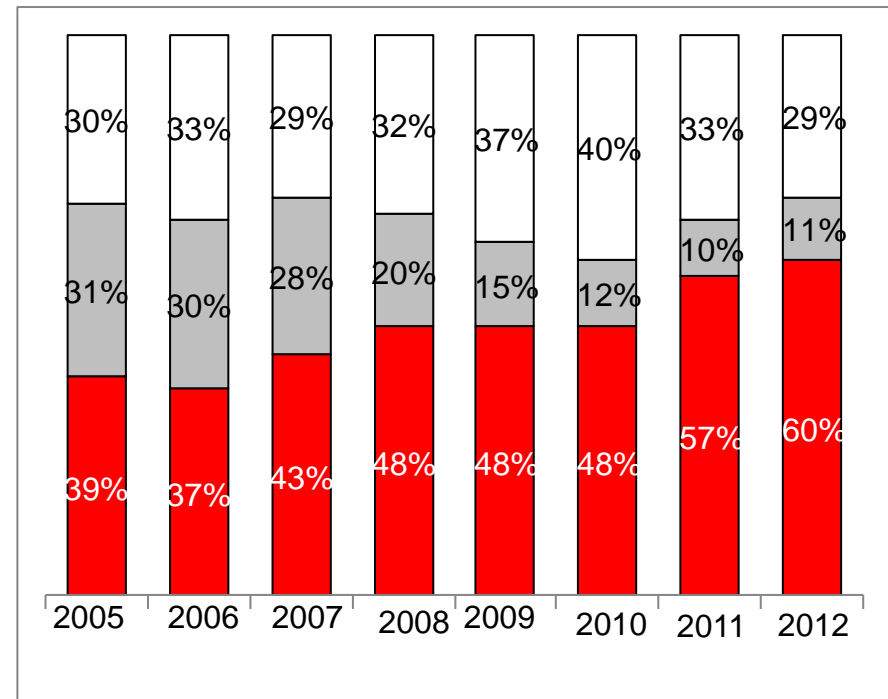
Products and Channels

Mortgages are originated through 3 channels...

Typical mortgage products

- 30 Year Fixed Rate Mortgage (FRM) conforming loans
- 15 Year Fixed Rate Mortgage (FRM) conforming loans
- Adjustable Rate Mortgage (ARM) loans
- Jumbo loans
- CRA¹ loans
- Employee loans
- All other non-saleable loans²

Industry origination per channel (%)



Mortgage Business: Origination Economics

Business Drivers

- Sales force size/productivity
- Customer/Realtor/Broker Experience
- Operational efficiency and capacity flexibility
- Underwriting and process quality

Risks

- Repurchase expense
- Market risk exposure to MBS rates
- Purchase market does not recover because of
High Unemployment
Fear of continuing price declines
Interest rates increase
- Regulatory and GSE changes

Business Returns

- ▶ Execution of business drivers creates attractive returns over the cycle
- ▶ Higher returns in peak refinance years (50% of the time period)
- ▶ Lower returns in “normal” years (25% times low returns and 25% time normal returns)

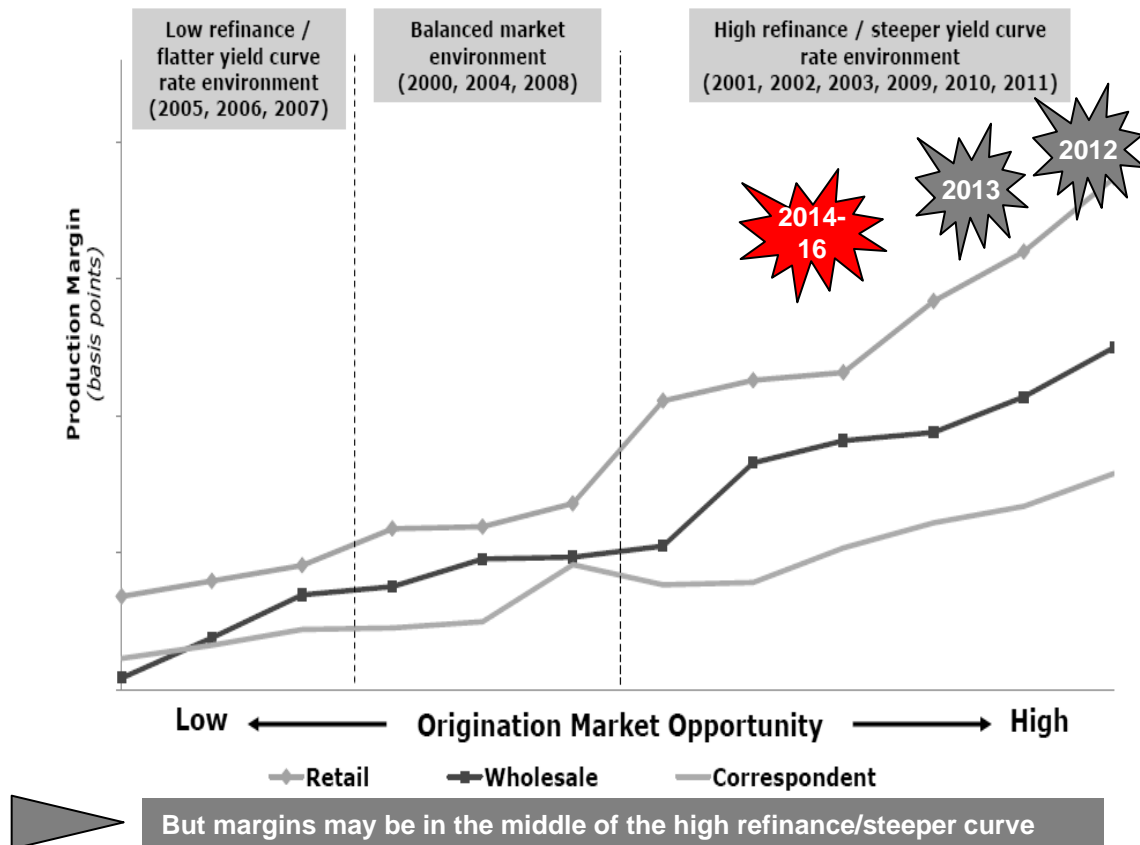
Production Margins trends

Mortgage margins typically tend to be volatile...

Mortgage Banking Profitability

- Mortgage banking originations are highly volatile in the US
- High refinance/steeper yield curve environment creates highest profitability
- 2012 was at the right side of steep curve
- 2013 will be 60 bps less than 2012
- However, to compete in the market, we must be available in the low yield and balanced market environments
- 2014-2016 is expected to be a balanced environment because of
 - Considerable reduction in refinance volumes
 - Brokers/correspondents are consolidating
 - Price increase to compensate for increased costs due to regulatory & compliance requirements

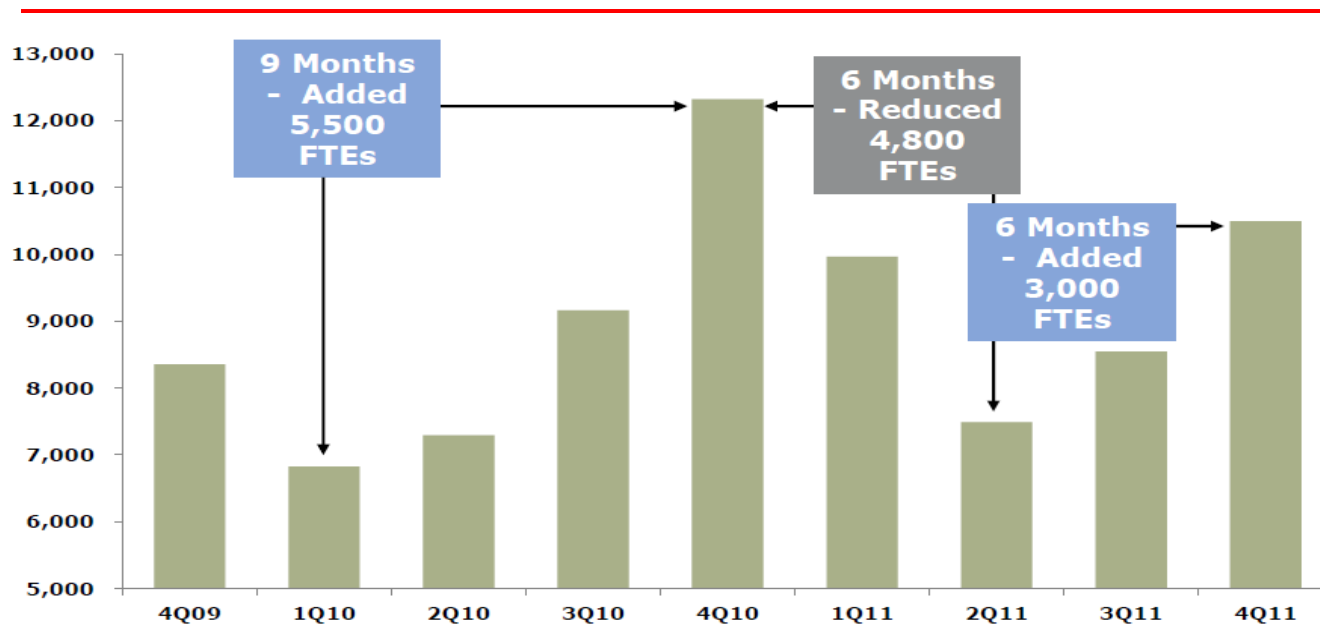
Wells Fargo margin trends (2000-2011)



Mortgage Loan Fulfillment Challenge

- ▶ Mortgage originations are **highly volatile** in the US market
- ▶ Therefore, it is imperative to have the **flexibility in fulfillment (manufacturing and risk)** to maintain the highest levels of customer experience
- ▶ In view of the commoditization of the products, **customer experience is the differentiating factor**
- ▶ Best in class players (like Wells Fargo), are experts **in managing fulfillment manpower** in synchronization with origination trends

Wells Fargo – Fulfillments FTE trend



GSE relationships developments



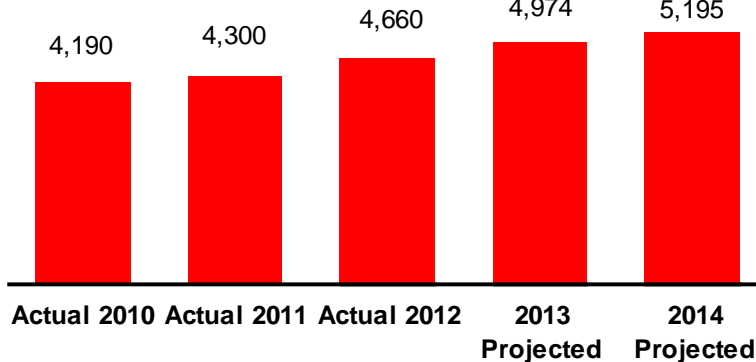
Many recent developments are changing the GSEs landscape...

	Market developments	Implications
Positive	<ul style="list-style-type: none"> • Release of HARP 2 – GSE program to refinance high LTV loans • Changes to reps and warranties • ULDD and UCDP 	<ul style="list-style-type: none"> • Opportunity to earn additional gain on sale income • Program extended to December 31, 2015 • Reduces repurchase risk • Enhance data integrity at the point of sale thereby reducing repurchase risk
Unknown	<ul style="list-style-type: none"> • Government decision with respect to Fannie and Freddie • New Government MBS structure 	<ul style="list-style-type: none"> • More privatization of the mortgage market • Interest rates will need to increase to attract private capital without government subsidy • Return to profitability may influence course of action • Unknown costs and impact on products
Negative	<ul style="list-style-type: none"> • Release of HARP 2 – GSE program to refinance high LTV loans • Capital levels of Fannie Mae and Freddie Mac are under pressure • Continuous increases in basis points in Guarantee fees • Qualified Mortgage Limitations 	<ul style="list-style-type: none"> • Government may require Banks to also offer a program that mimics HARP 2 - lower NIM and lower credit losses • Tightening of credit standards • Loan level pricing adjustments • Increasing Counterparty risk to the bank • Increasing pressure on lenders in the form of repurchase request for underwriting guide violations • Increase in interest rates by an average of 25-75 basis points • GSE will only purchase Qualified Mortgages which may limit production

Mortgage Business Outlook: Purchase market to pick up

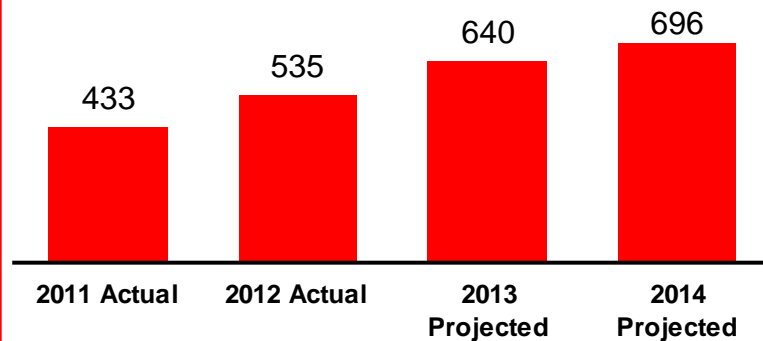
Existing Home Sales

thousands

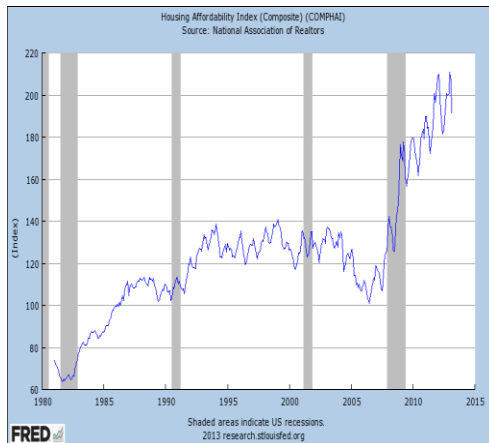


New Construction – Single Family

thousands

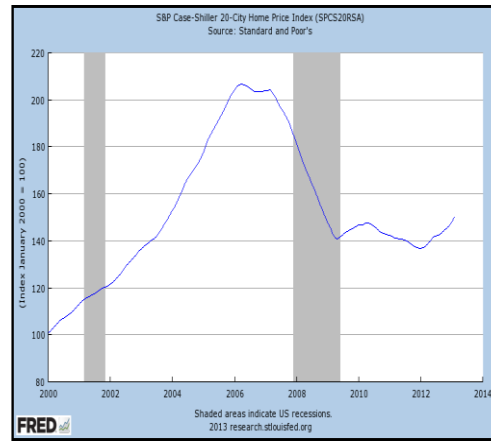


Home affordability Index



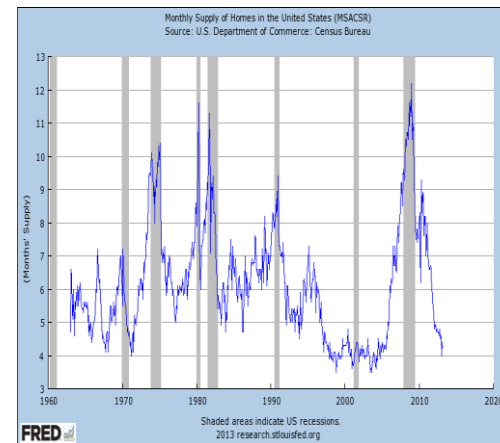
Home affordability is increasing

Case Shiller Home price Index



Home prices are stabilizing with a slight uptick

New home supply



New Home supply is at an all time low

Purchase market is expected to pick up while refi boom will wind down

CFPB NEW RULES



Rules will be challenging to implement due to lack of Unifi resources and lack of clarity on certain rules...

CFPB issued 7 distinct mortgage final rules:

Difficult to implement

- Ability-to-repay and definition of Qualified Mortgage (effective January 10, 2014)
- Loan originator compensation (effective January 10, 2014)
- Combined Truth in Lending-RESPA disclosure requirements (issuance of final rule delayed until later 2013, likely effective in later 2014)

Easier to implement

- Expanded escrow requirements (effective June 1, 2013)
- Expanded HOEPA/Reg. Z Section 32 (effective January 10, 2014)
- Mortgage servicing (effective January 10, 2014)
- Expanded appraisal requirements (effective January 18, 2014)

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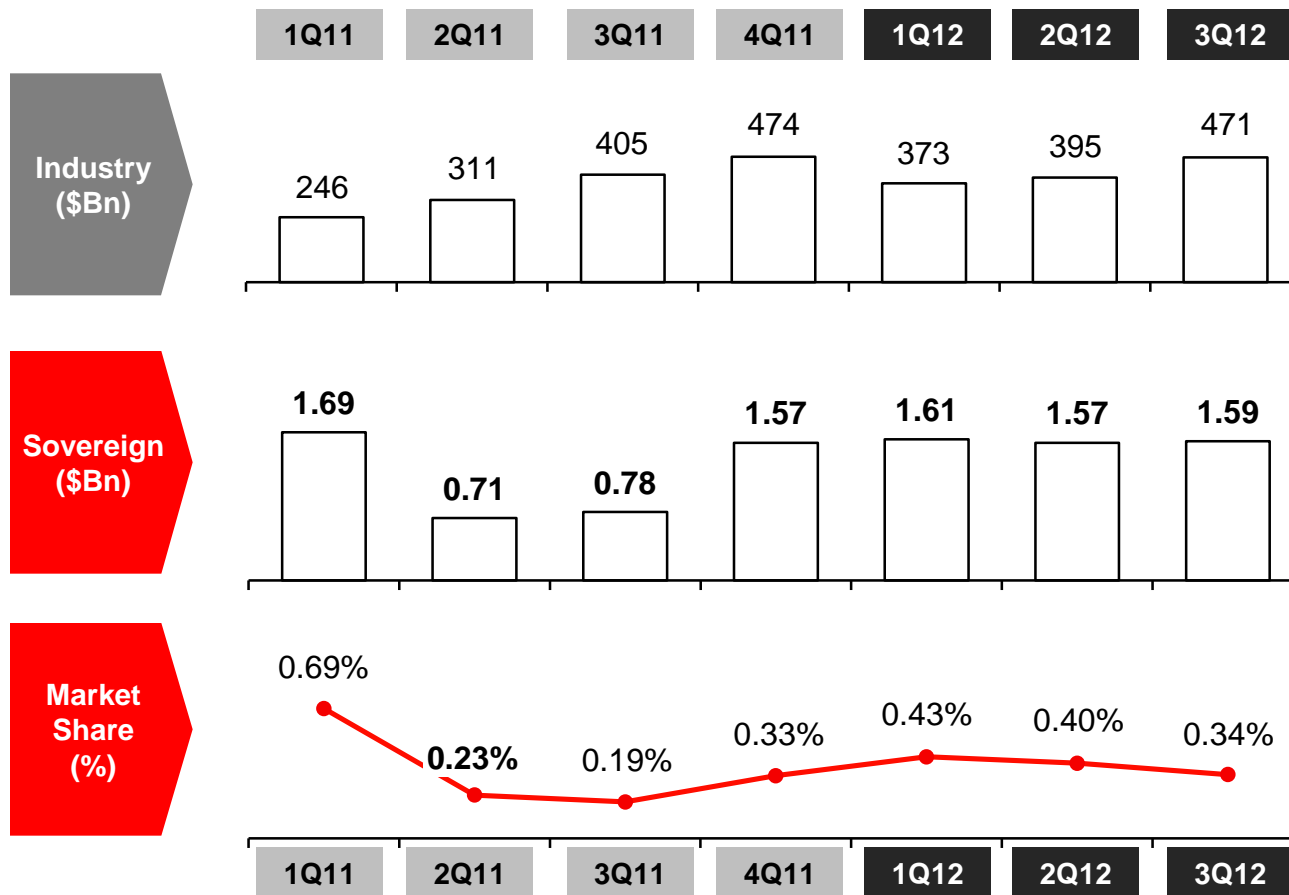
Organic Growth Plan

Appendix

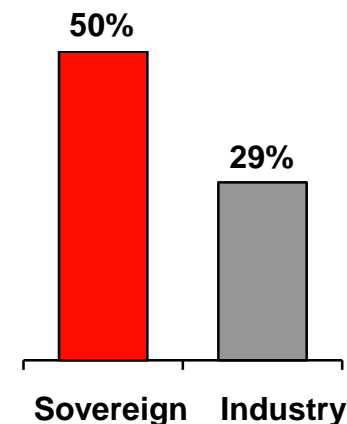
Mortgage Origination Market Share (2011-2012)

Quarterly origination: production, share and growth

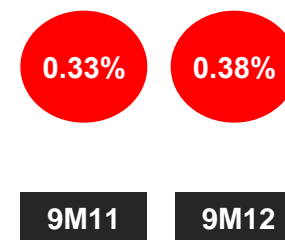
Quarterly Originations (\$B) and Market Share (%)



Origination Growth: 9M2012 vs. 9M2011

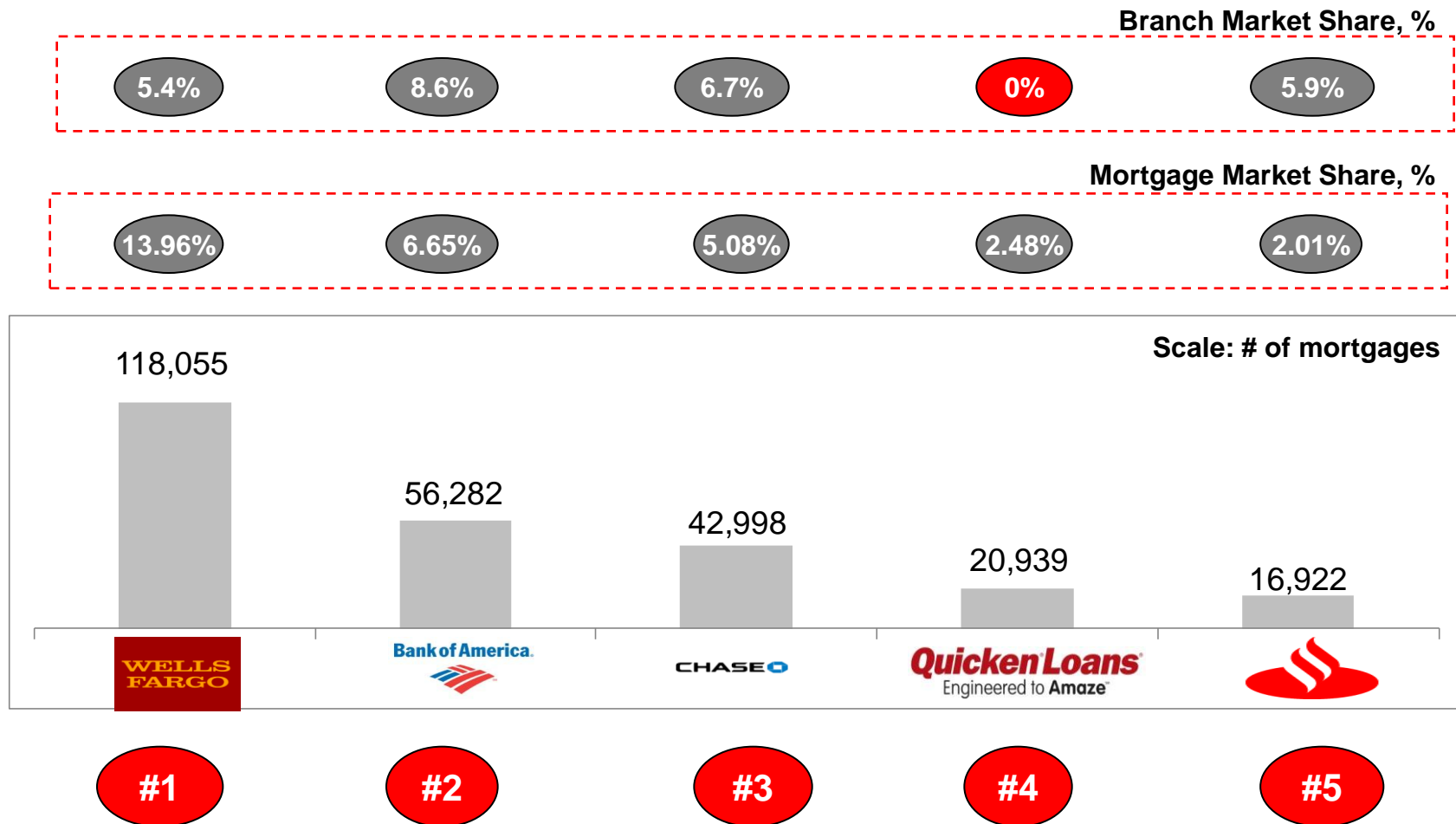


Origination Share: 9M2011 and 9M2012



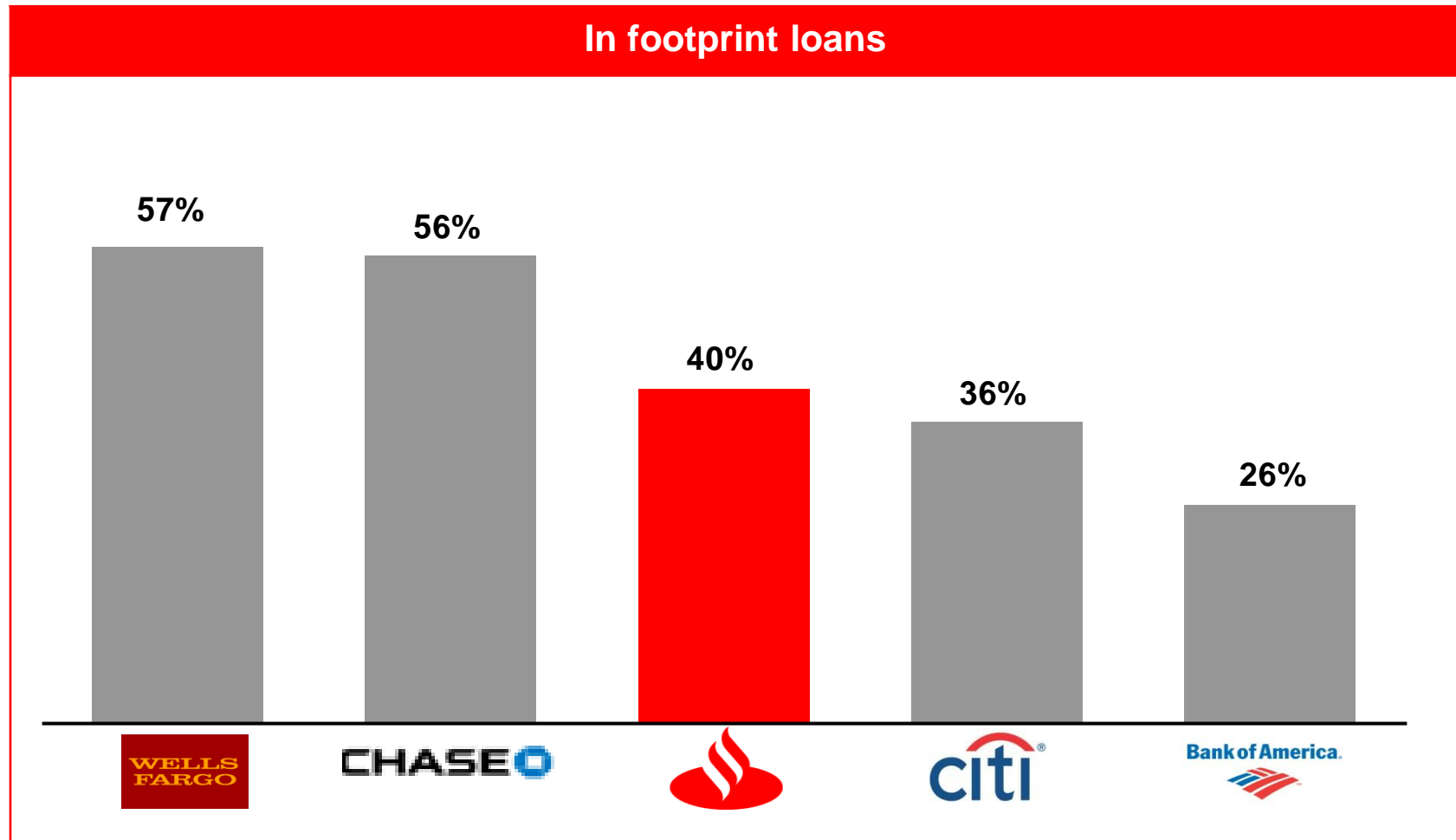
Top Mortgage Originators (in the footprint)

- ▶ **Branch presence is not imperative** to be a mortgage player
- ▶ **Non-depository institutions** are also major competitors



Top Mortgage Originators: Refinance capture

% of refinances captured by the same lender in 2012



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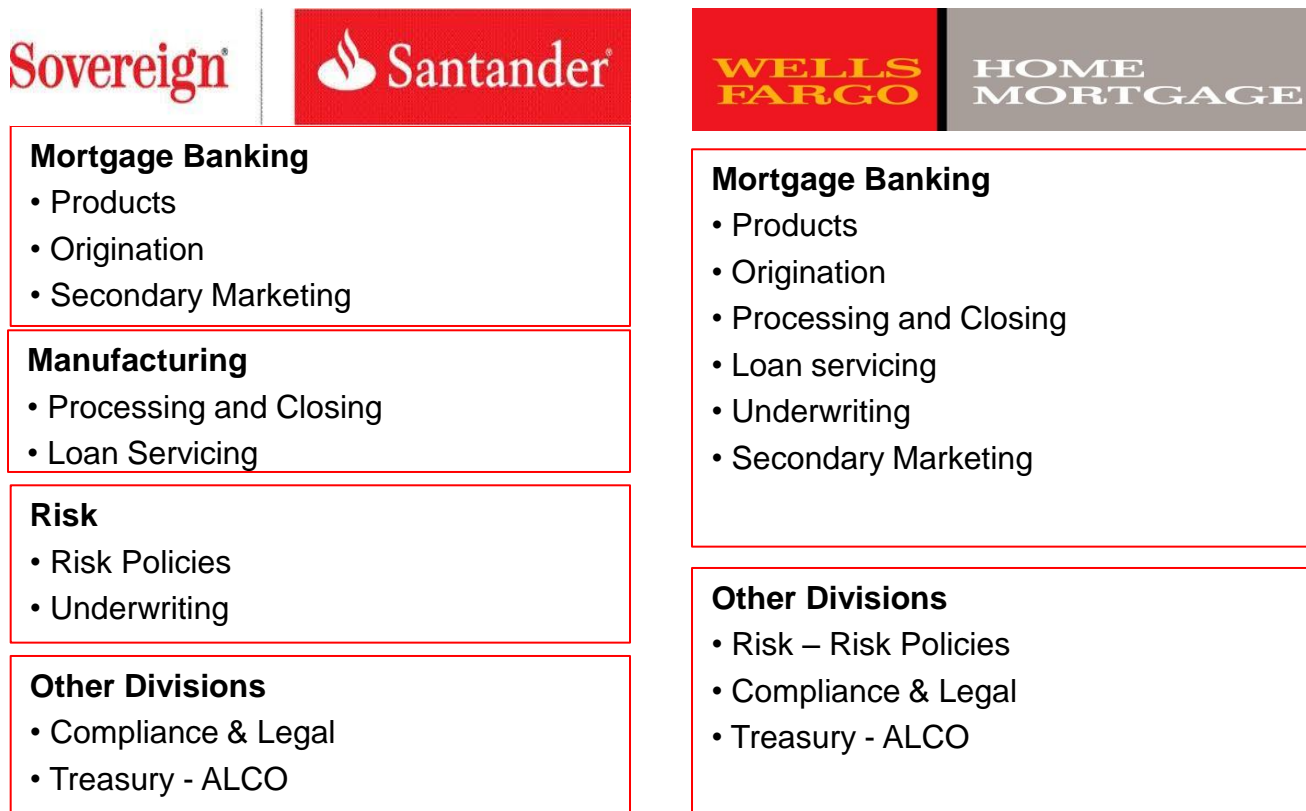
Organic Growth Plan

Appendix

Mortgage Banking Organizational Structure

Mortgage business in the US is typically vertically integrated (most top originators); this allows flexibility to cater to the dynamically changing market environment...

Mortgage Division Organizational Structure

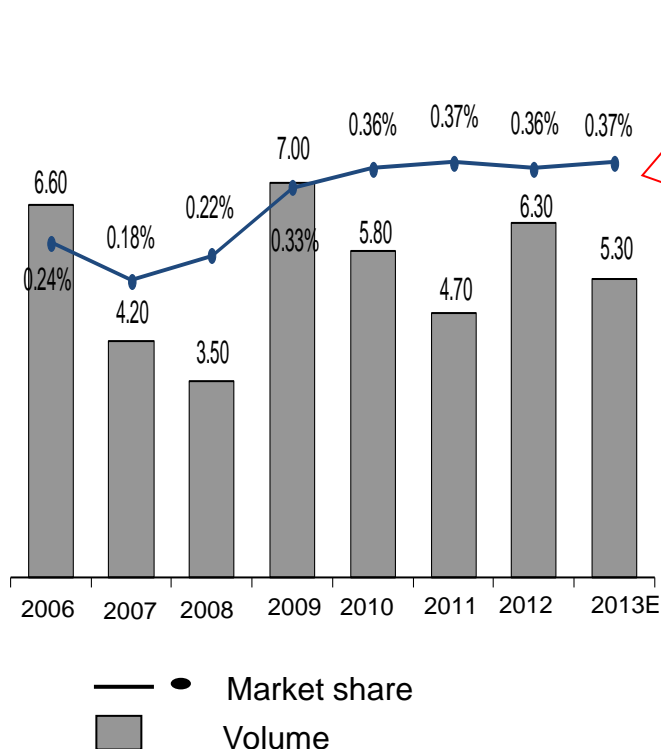


Origination Trend and Channels

Increasing market share in an environment of decreasing volume (industry will decrease 26% from 2013 to 2014)...

Retail origination historically has represented around 60%-70% of Sovereign's origination; 2012 and 2013 there has been opportunity in broker business due to changes at various wholesale lenders...

Origination volume and market share (\$Bn)

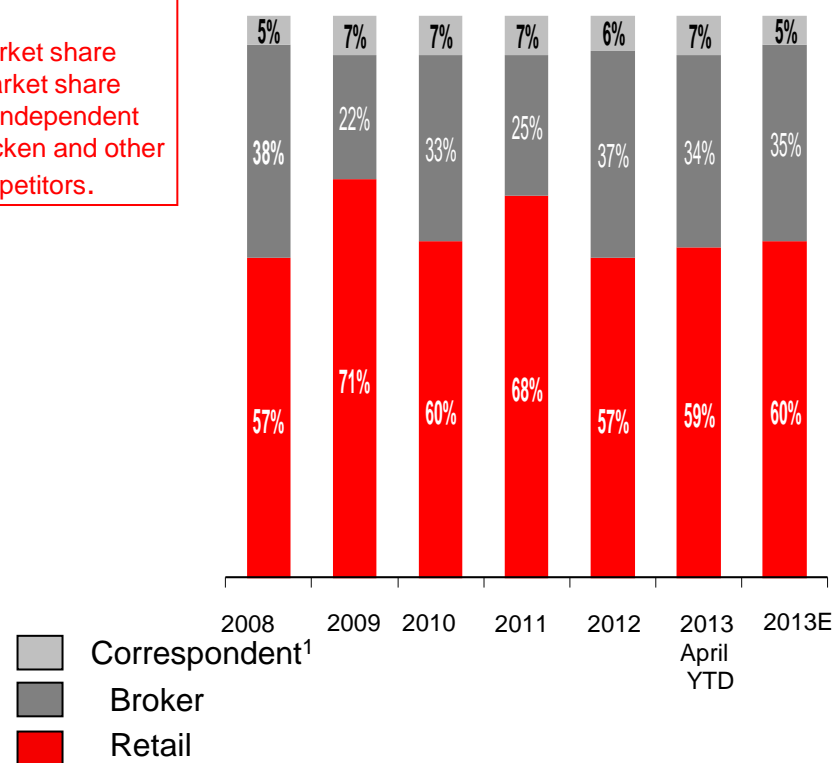


Compared to

- **0.74%** branch market share
- **0.64%** deposit market share

which do not have independent companies like Quicken and other non-depository competitors.

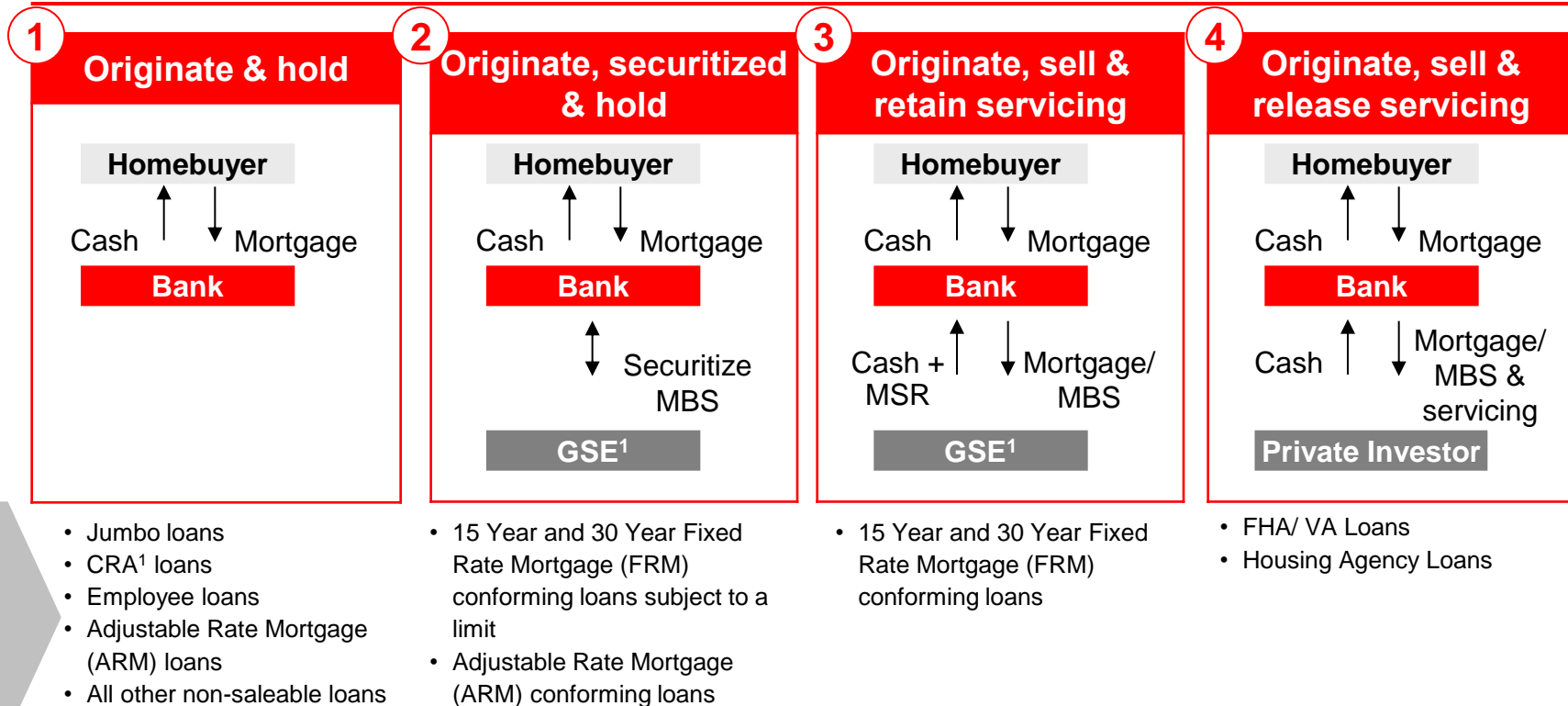
Origination Channels (%)



Mortgage Strategies

Sovereign follows 4 main strategies to generate revenues...

Four main strategies of Sovereign mortgage business



	ALCO dynamically sets the strategy of the Mortgage business changing the allocation between the 4 business models			
2013 Budget/Forecast allocation	16%/15%	0%/0%	79%/83%	5%/2%

1. Government Sponsored Enterprise (Fannie Mae, Freddie Mac) and Ginnie Mae

Economics of Mortgage Strategies (30 yr Retail FRM)



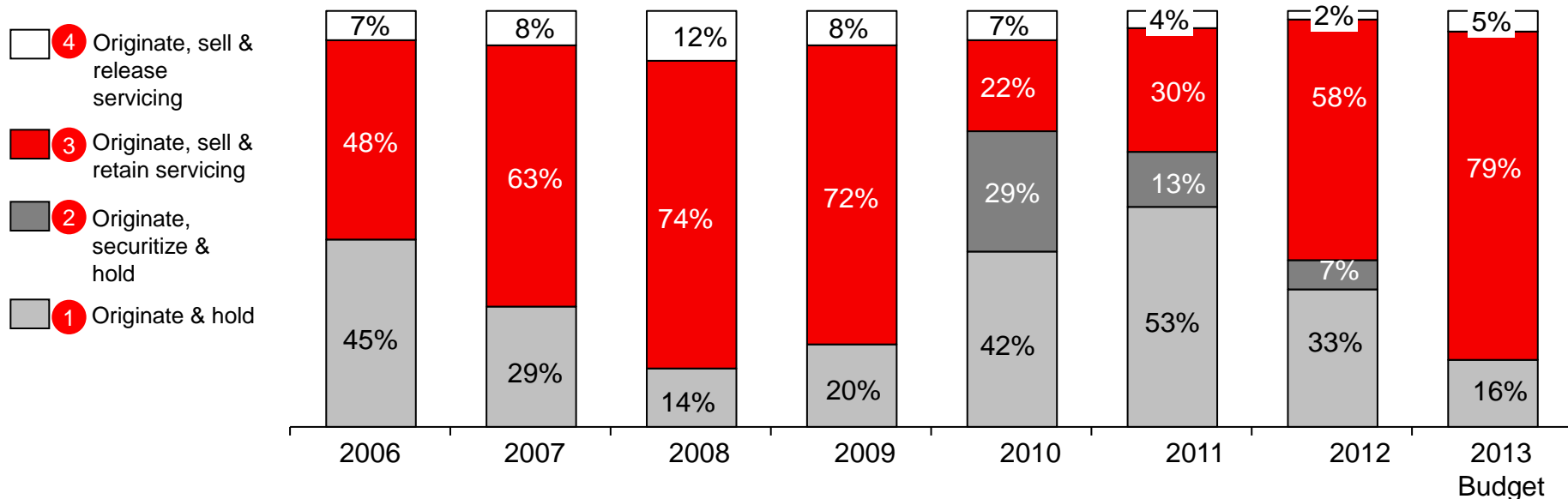
	LOAN	MBS	SELL
Loan Rate – May 7, 2013	3.50%	3.50%	0.00%
Guanrantee Fee		-0.377%	
Service Fee		-0.250%	
Buydown Fee		0.127%	
Amortization of premium or discount	-0.02%	-0.050%	
Yield	3.48%	2.95%	0.00%
Operational Costs	-0.05%	-0.05%	-0.05%
Cost of Credit	-0.31%		
Cost of funds (4.42 year SWAP)	-0.77%	-0.77%	
GOS (net of Non-FASB expense of .66 and .10 repurchase)			1.66%
Net servicing fee	0.05%	0.13%	0.13%
Net Spread	2.40%	2.26%	1.74%
Liquidity Cost (over SWAP)	-0.50%	-0.50%	
Net Spread before Convexity	1.90%	1.76%	1.74%
Convexity Cost	- .42 %	- .42%	
Net Spread after Convexity	1.48%	1.34%	1.74%*
Pre Tax return on regulatory capital (for \$1mm asset)	26.90%	37.39%	99.42%
Regulatory Capital	\$55,000	\$35,833	\$17,500

* The SELL spread can be obtained if the production holds up; however in view of the volatility of Mortgage production in the US, the gain on sale margin may not be sustainable for continued revenue from Mortgage operations. 166 bps GOS is net of non-fasb expenses which are not considered in return on loan or MBS ; return on regulatory capital from future servicing activities may be much less.

Sovereign Allocation

Percentage of mortgages retained has decreased in the past years as we have moved back to a Gain on Sale Model...

Allocation of originated volume to the 3 strategies

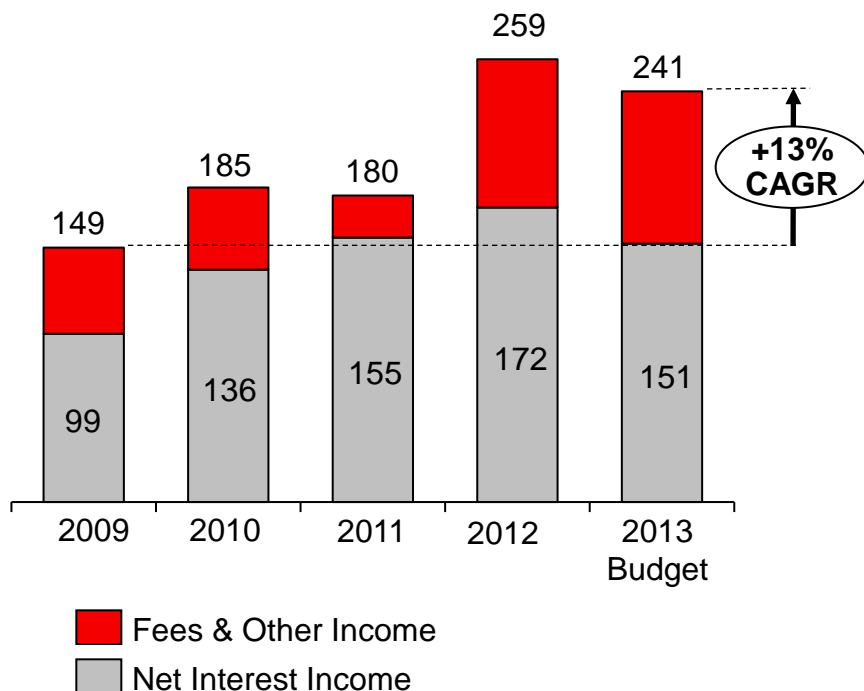


Strategy	1 Originate & hold	2 Originate, securitize & hold	3 Originate, sell & retain servicing	4 Originate, sell & release servicing
2014	15%	0%	83%	2%
2015	15%	0%	83%	2%
2016	15%	0%	83%	2%

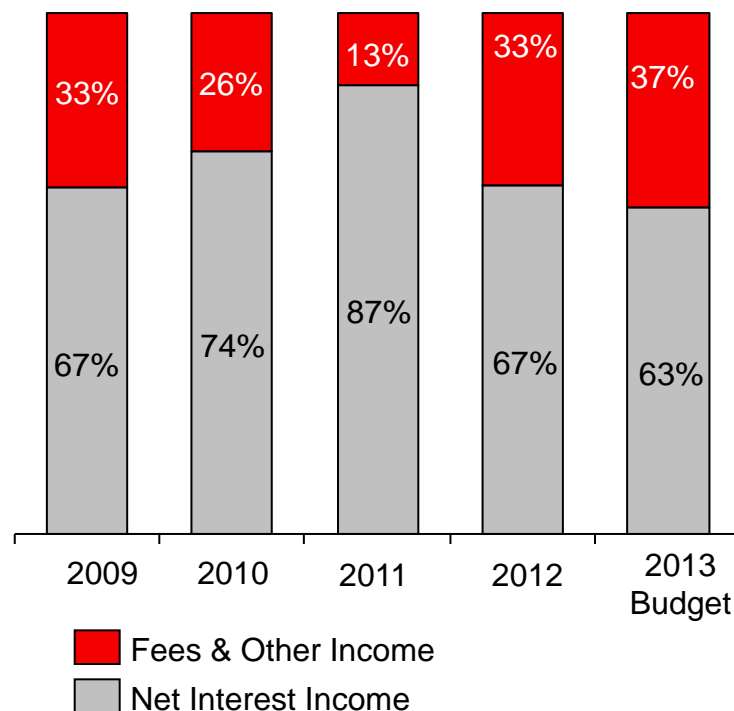
Mortgage Business: net revenue trend

Fee income increasing due to change to Gain on Sale Model...

Net Revenues breakdown (\$Mn)



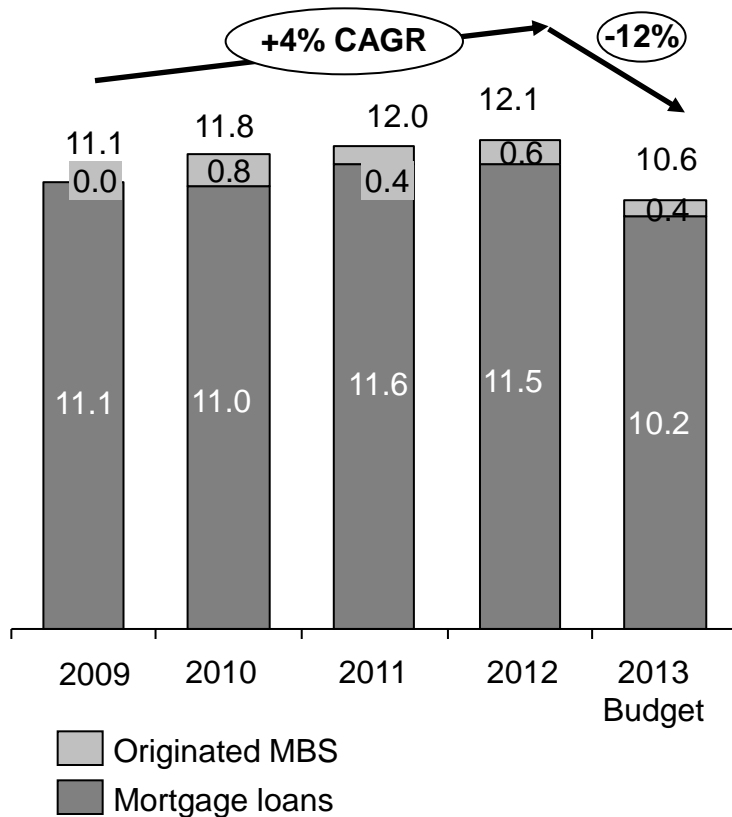
Net Int. Income vs. Fee & Other income (\$Mn)



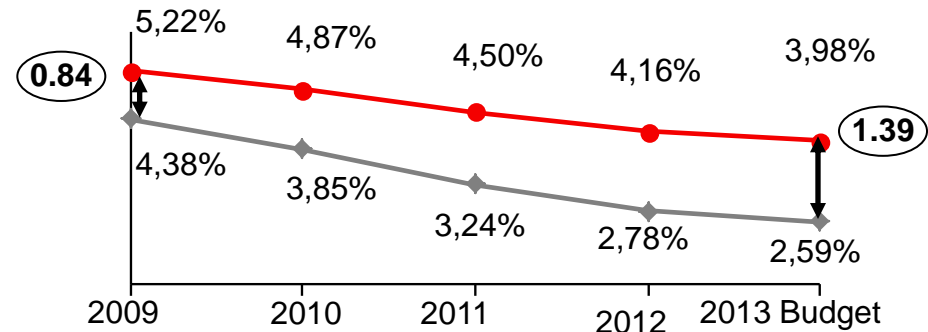
Balance and interest margin (Stock Spreads)

Net interest income growth mostly driven by mortgage spread widening; Average balance decrease in 2013 due to change to Gain on Sale Model...

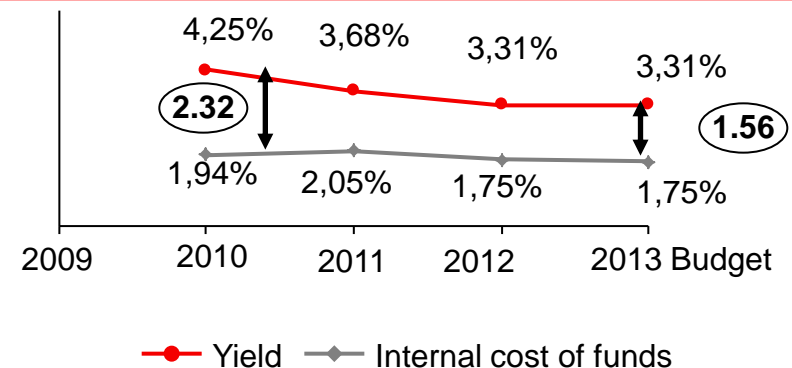
Average balances (\$Bn)



Loans' yield and internal cost of funds (%)



MBS' yield and internal cost of funds (%)



Mortgage Banking Income Statement

Figures in \$, 000s

2009-2013 Performance

	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Budget
Net Interest Income	98,972	135,785	155,403	171,583	151,197
Gain on Sale¹	65,178	27,582	64,450	88,089	73,550
Servicing Fees and other fees	43,824	44,577	41,800	41,633	43,183
Recovery (Impairment)	(59,159)	(23,370)	(82,003)	(42,282)	(26,000)
Total Revenue	148,815	184,574	179,650	259,023	241,930
Direct Operating Expenses	5,000	5,000	5,194	19,972	tbd
Indirect Operating Expenses	55,215	47,662	56,380	63,062	tbd
Total Operating Expenses	60,215	52,662	61,574	83,034	
Provisions for Credit Losses²	43,289	110,000	76,223	117,940	61,000
Income before Taxes	45,311	21,912	41,853	58,049	180,930

¹ GOS in MBS sales – 2011: 35MM; 2012: 19.2MM

GSE repurchase provision netted against GOS – 2011: 2.6MM; 2012: 47.9MM; 2013: 4.8MM

² 2012 Provision includes TDR adjustment

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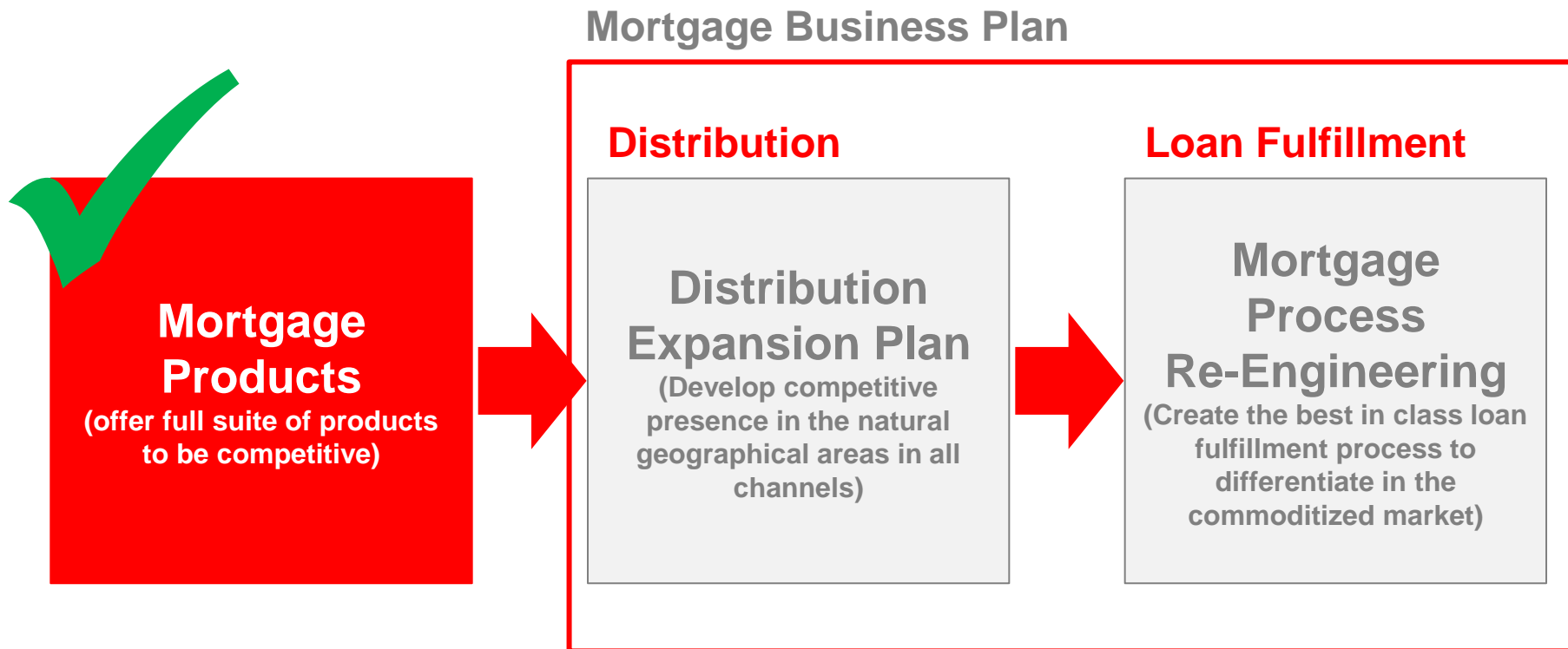
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Organic Growth Plan

Appendix

Mortgage Business Plan: Evolution










Establish strong fundamentals that can be leveraged to fuel expansion and become preferred mortgage originator in the footprint and out of it



Growth Potential Areas

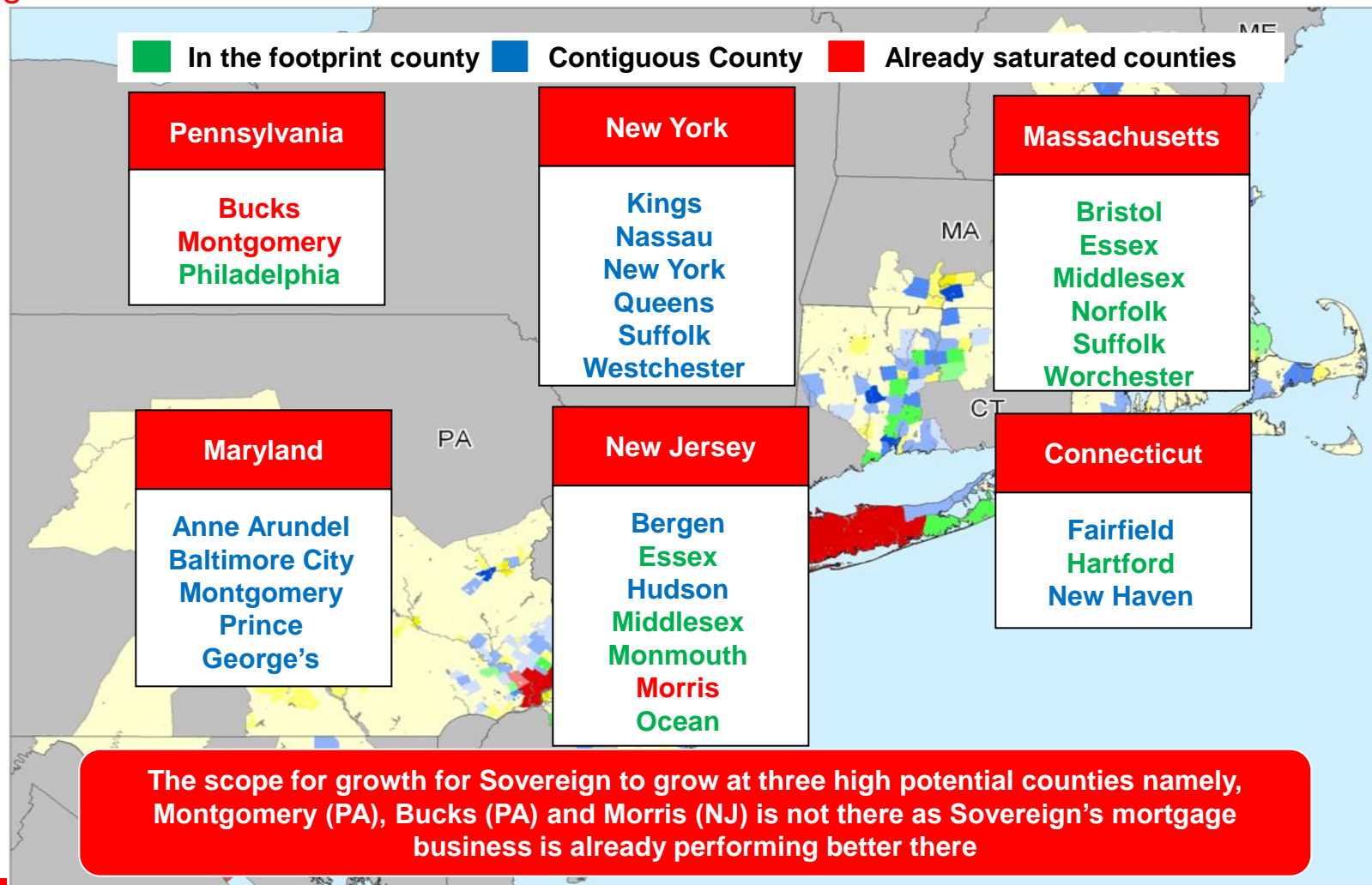
Holistic approach taken across distribution channels and geographies to formulate the distribution expansion plan

- Exploit market opportunity in the existing counties
- Start building the franchise in the contiguous counties

	Retail (MDOs)	Broker	Correspondent
In footprint	Need to exploit the high potential counties 	Need to exploit the high potential counties 	Narrow but improving margins 
Contiguous Counties within Footprint	Starting to build franchise 	Starting to build franchise 	Narrow but improving margins 
Out of footprint	Strategically limited 	Strategically limited 	Narrow but improving margins 

High Potential Counties

For scaling up, 26 high potential counties were identified within the footprint and in the contiguous counties



Expansion Plan: 2013

Declining macro situation

Decrease in industry origination volumes; implies that additional hiring in in-footprint counties will result in disproportionately lower opportunity per MDO



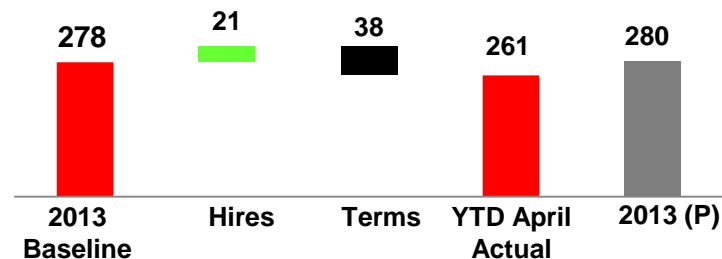
Therefore,

- Decreased the hiring schedule from the original plan due to the macro situation
- Decided to expand into contiguous counties to reduce origination burden on existing MDOs in the footprint

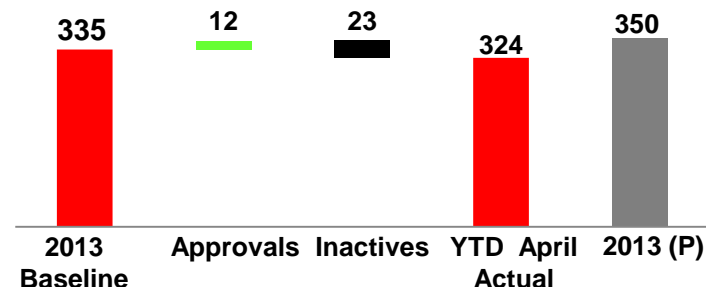
2013 Plan

2013 YTD Implementation Status

Retail



Wholesale

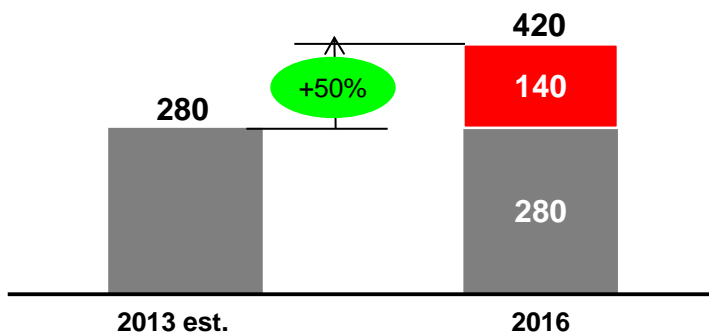


Expansion Plan: 2014-2016

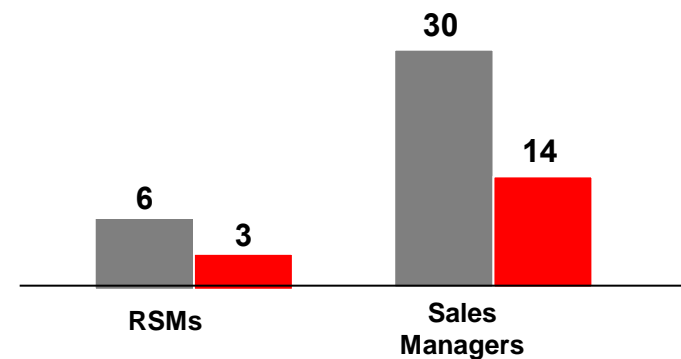
Existing New

Retail

Hire additional 140 MDOs

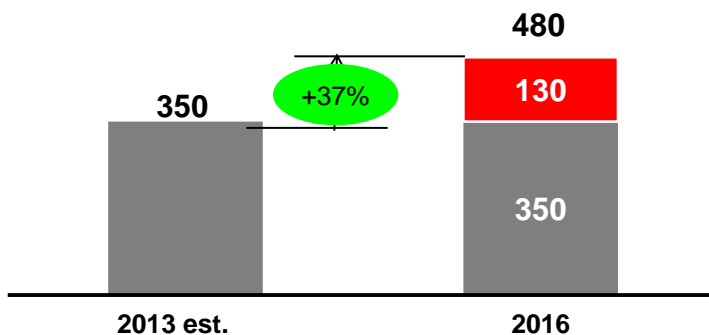


Additional Management Resources

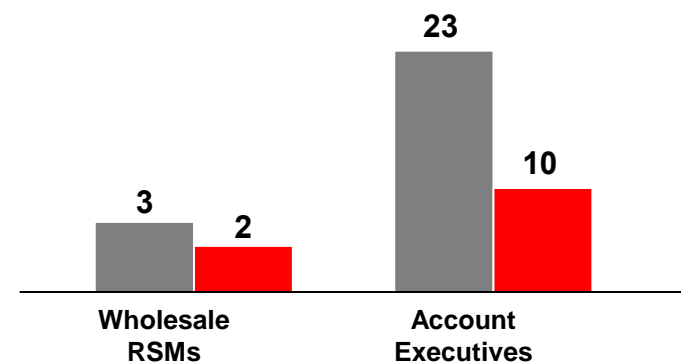


Wholesale

Approve additional 130 Brokers

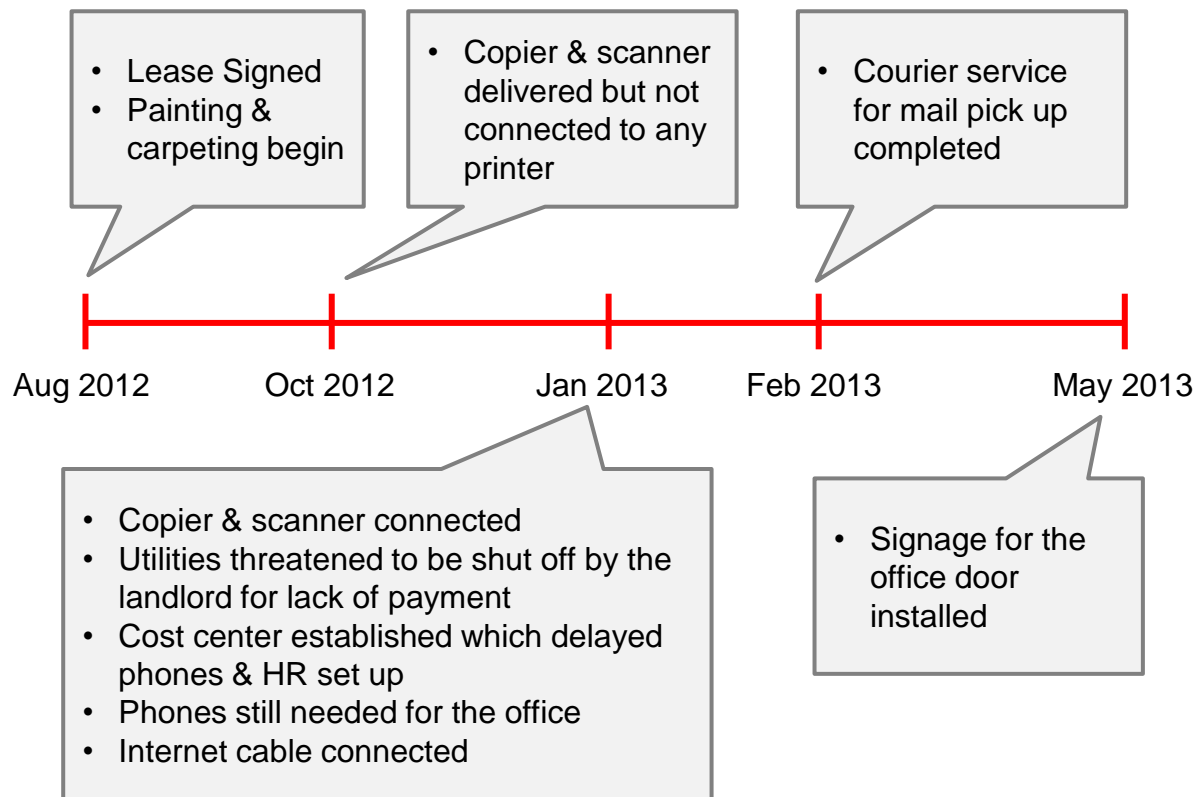


Additional Account Executives



Contiguous County Expansion Experience

Medford (New York) office opening experience (9 months)



Success of contiguous office expansion plan requires better support and execution from facilities and tech groups

Contiguous County Expansion Resources

MDOs face additional challenges in the contiguous counties since there is...



No Branch Presence



No Brand Recognition

Additional
Resources
Required

Compensation Plan

Develop a **compensation plan** that is competitive for contiguous markets. This may mean compensating 3-5 basis points over the competition



Additional Marketing

For **unique requirements** like direct marketing to local homeowners for rates, buying leads, advertisements brand/MDO awareness collateral



Expense Allowance

Expense Allowance for using home office (printer, phone lines, internet etc.) for work. Since we do not have branches, this will greatly ease efforts for new MDOs



Execution Challenges

MDO Attrition

Despite hiring record number of MDOs, we still missed our sales force expansion target due to high attrition rates

Initiatives to address ATTRITION

Urgently address manpower & resource issues with PRIDE



Poor loan fulfillment process has resulted in increased attrition among our loan officer.

Mortgage Pride is under implementation to improve the process, however we are facing challenges in implementation due to :

- Inadequate manpower in the processing area
- Lack of resources in the UNIFI support to implement necessary system changes
- Leadership challenges in certain areas

Junior MDO Position



Formalize MDO funded Junior MDO program to expedite the origination process

Sales Manager Task List

Manager's Closing Checklist		
DATE	AC TION	COMMENTS
	1. After business has closed, cut appropriate labor: — Bus staff / dish room — Servers — Host — Bartender — Kitchen - line — Kitchen - prep	
	2. Check with verification manager to ensure all ordering has been completed: — meat — seafood — produce — dairy	
	3. Check server paperwork and closing dinner price to collecting check-outs	
	4. Recheck all signs to bar setting staff sheets	
	5. Recheck all items served in liquor rooming inventory	
	6. Close kitchen (server close price to posted closing time)	
	7. Close bar one hour after dining room is closed or as business dictates	
	8. Once customers have left the building, lock front door	
	9. Check restrooms to be certain they are empty, clean and free of debris	
	10. Check remaining staff paperwork and closing sheets. Collect all remaining money, check-out sheet	
	11. Close bartender compa, collect dishes and complete check-out using a listed check-out sheet	
	12. Complete staff audit	

Institutionalize expected tasks and behaviors performed by our Sales Managers for better management, leadership and performance

Recognition Events/Sprints



Develop sales recognition events:

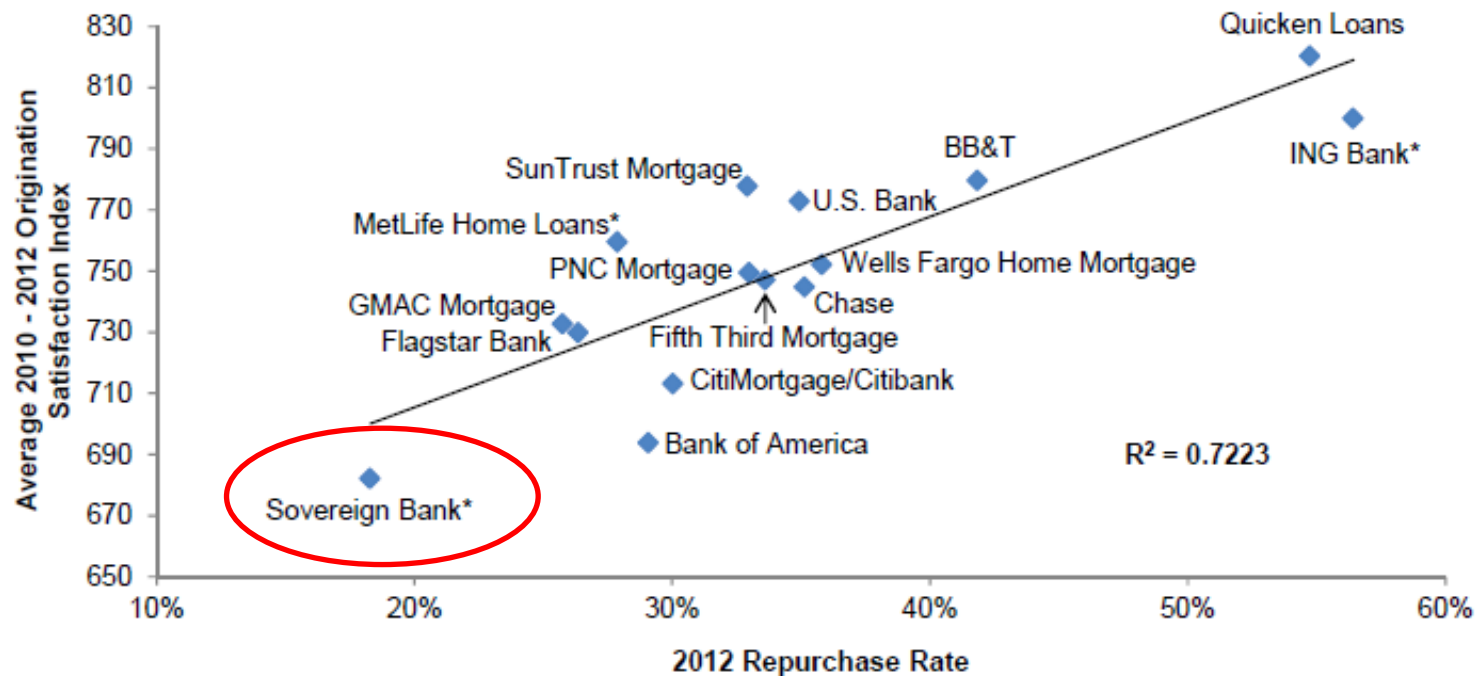
- Top performers events
- Performance recognition
- Additional qualitative incentive for high producers

Why Loan Fulfillment Process is important ?



Refinance of loan from the same lender is important behavioral metric; which is driven by how well the origination process was perceived by the customer...

Past Overall Origination Experience and Repurchase Rate



Notes: PHH Mortgage and Provident Funding Associates are excluded because of their price-focused approach;

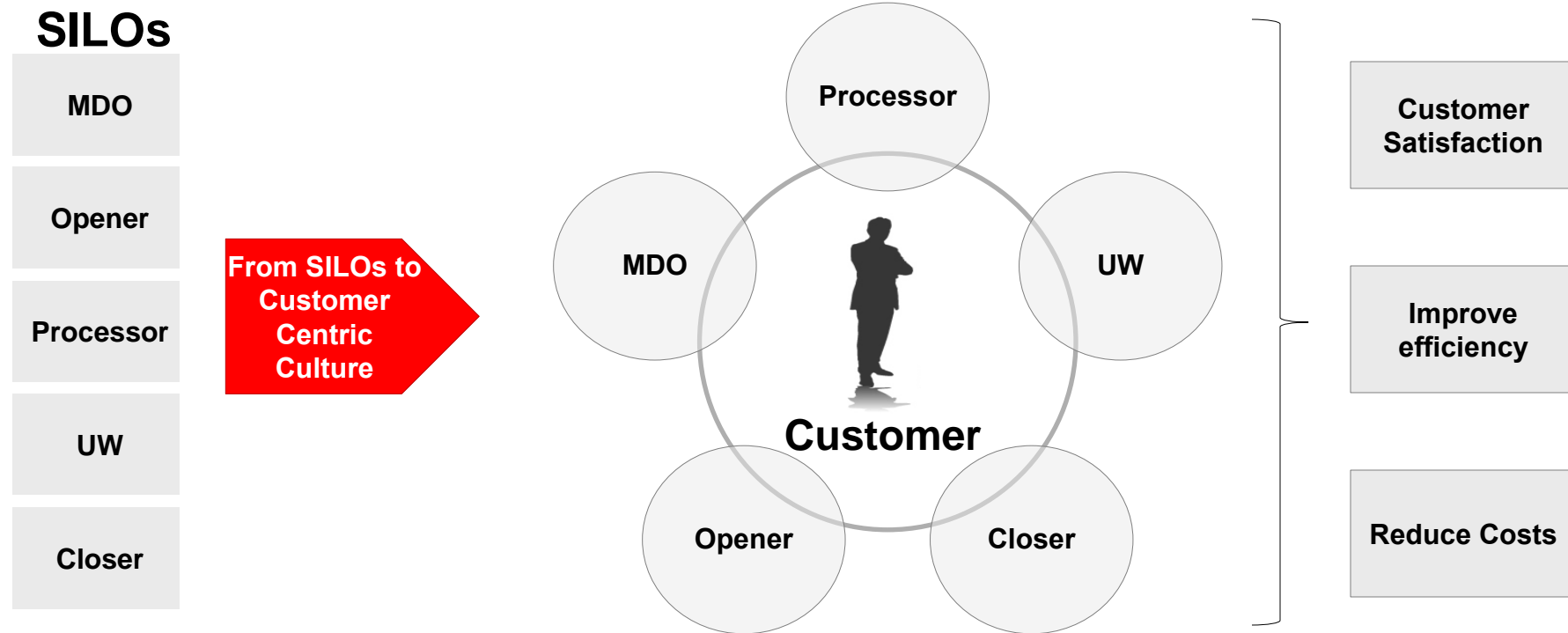
* Denotes low sample size ($n=30-99$); Lenders with insufficient sample size ($n<30$) are not shown.

Source: JDPa 2010-2012 Primary Mortgage Origination studies

The need for Re-Engineering?



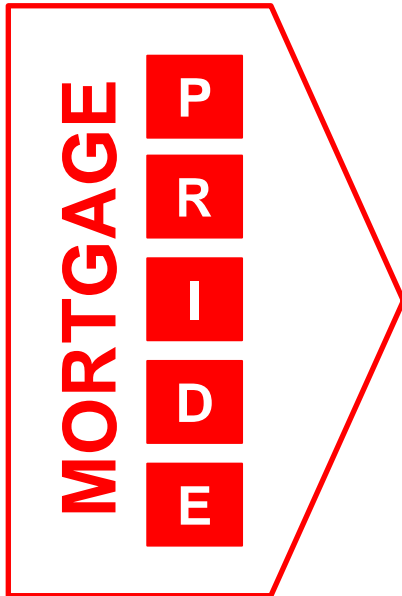
Mortgage industry is commoditized, hence the key to differentiation is Customer Service Excellence



Re-Engineering Solution: Mortgage “PRIDE”



New Mortgage Process



1 First time complete

“sending the complete set of documents timely”

2 Proactive follow ups and communications

“using IT systems and pipeline management to excel at customer service and internal interactions”

3 Appraisals

“removing appraisals as the bottleneck by expediting ordering and monitoring their delivery”

4 Pipeline management

“using metrics and reports to drive continuous improvement”

5 Standardization

“standardize across all sites to drive efficiencies and best practices”

Process Re-engineering is delivering and driving people to provide exceptional customer service

Mortgage PRIDE Execution Challenges

Execution in the support areas is adversely impacting the re-engineering implementation

Challenge	Risk	Action Plan
UNIFI Support resources are insufficient to handle system maintenance and changes.	Inadequate staffing to support UNIFI creates delays in implementing system changes for PRIDE, new products and regulations. Stretched resources will be further challenged by the work required to implement upcoming CFPB regulations.	Continue to escalate concerns to senior managers in the Factories and elsewhere. Prioritize needs so that only most critical or those that are required by regulation are addressed.
Villanova processing staff turn over, lack of experience and insufficient training	PRIDE re-engineering is improving speed at which files arrive in processing, however staffing issues and a pre-existing backlog of applications in this area has hampered processing of new files. Overall turn time has suffered due to the backlog and lack of overtime. Recommended changes were delayed because of staffing	Staffing: Fill open positions, manage out low performers and enhance training for new hires Implement recommendations and backlog remediation plans in May
Factory related issues: <ul style="list-style-type: none"> • Phone problems (Villanova) • Network performance (various locations) • Inability to get RightFax numbers 	Without basic functionality customers are unable to interact with Sovereign whether by phone, fax or email creating unnecessary delays and frustration.	Continue to escalate issues to senior managers in the Factories. (To date there has been limited or no response on some issues)
Reorganization in Change Management	Reduction in Change Management resources has slowed down PRIDE implementation. Whol	Revise project plan deadlines and modify some aspects of implementation.

Expansion Plan (2014-2016): Production Forecast

(\$, Bn)

MDOs

280

+40

+50

+50

420

Brokers

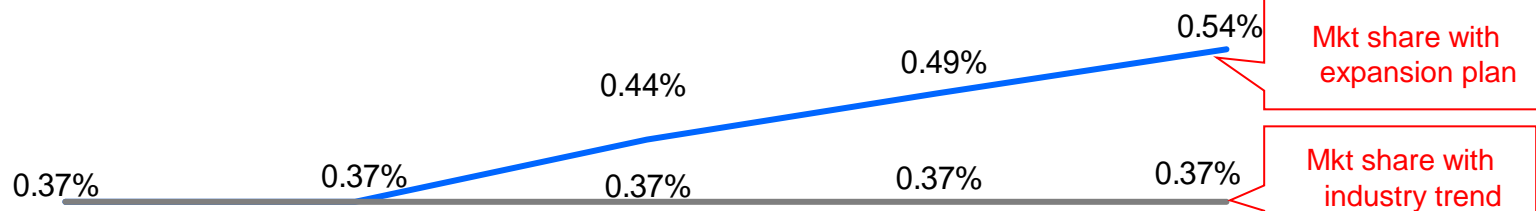
350

+30

+50

+50

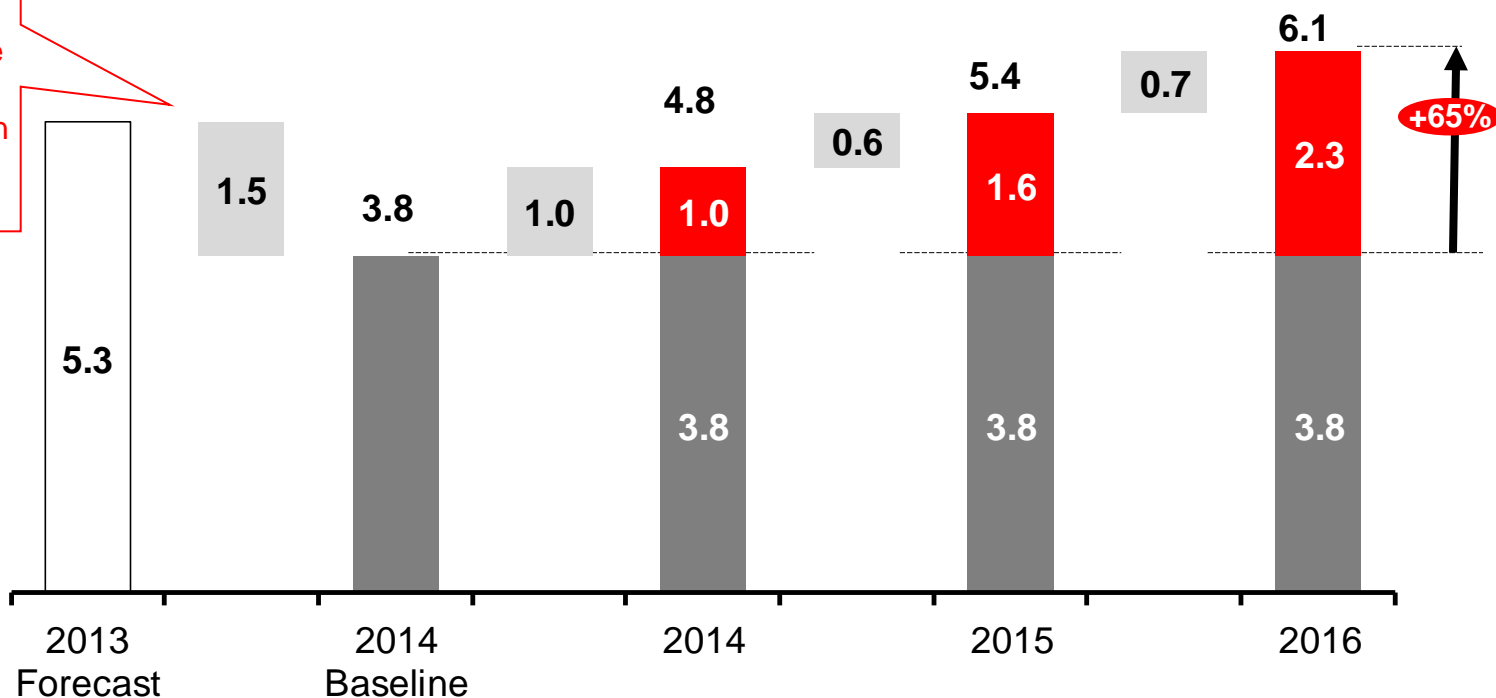
480



Mkt share with expansion plan

Mkt share with industry trend

Expected decline consistent with the industry decline, if there were no plan volume would be \$3.8 billion

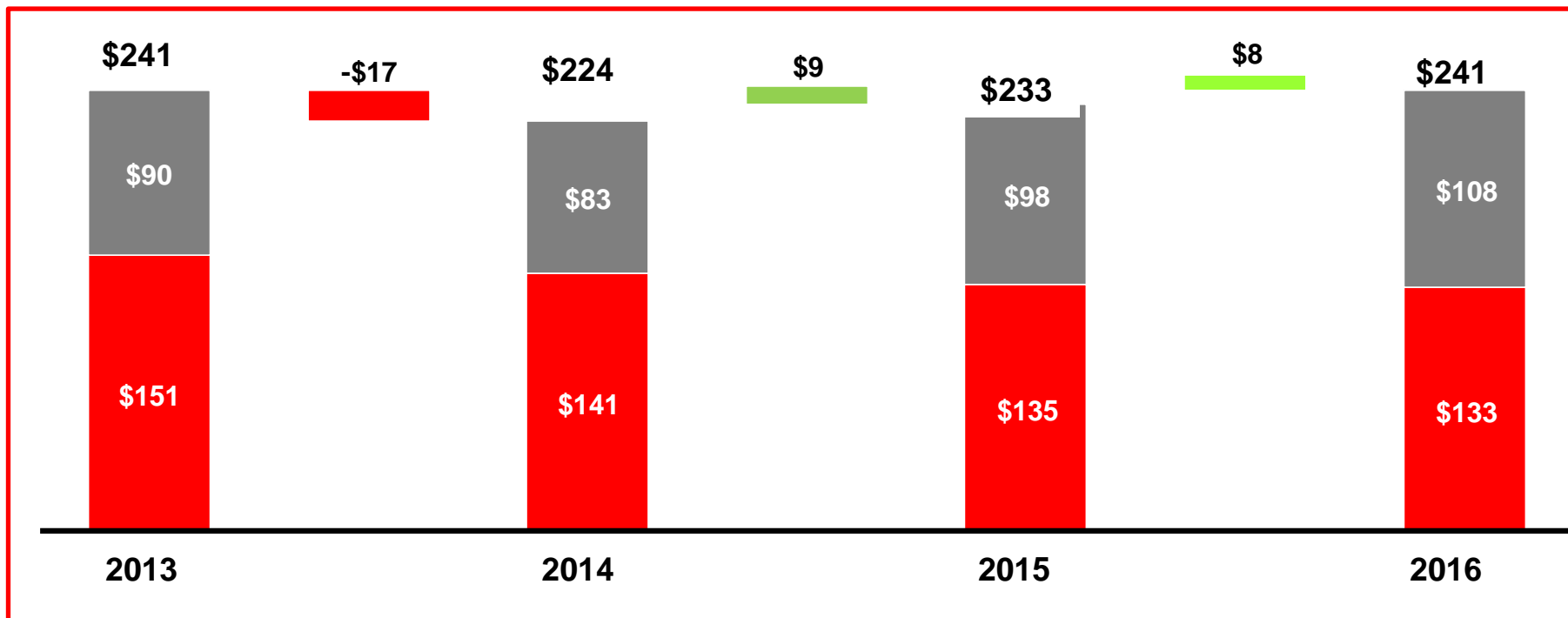


Expansion Plan (2014-2016): Total Revenue Forecast

(\$, MM)

■ NIM
■ GOS & fees

Growing Gain on Sale and fees to offset loss of NIM due to planned decreases in portfolio balances



Repurchase Provision (\$, mm)

4.8

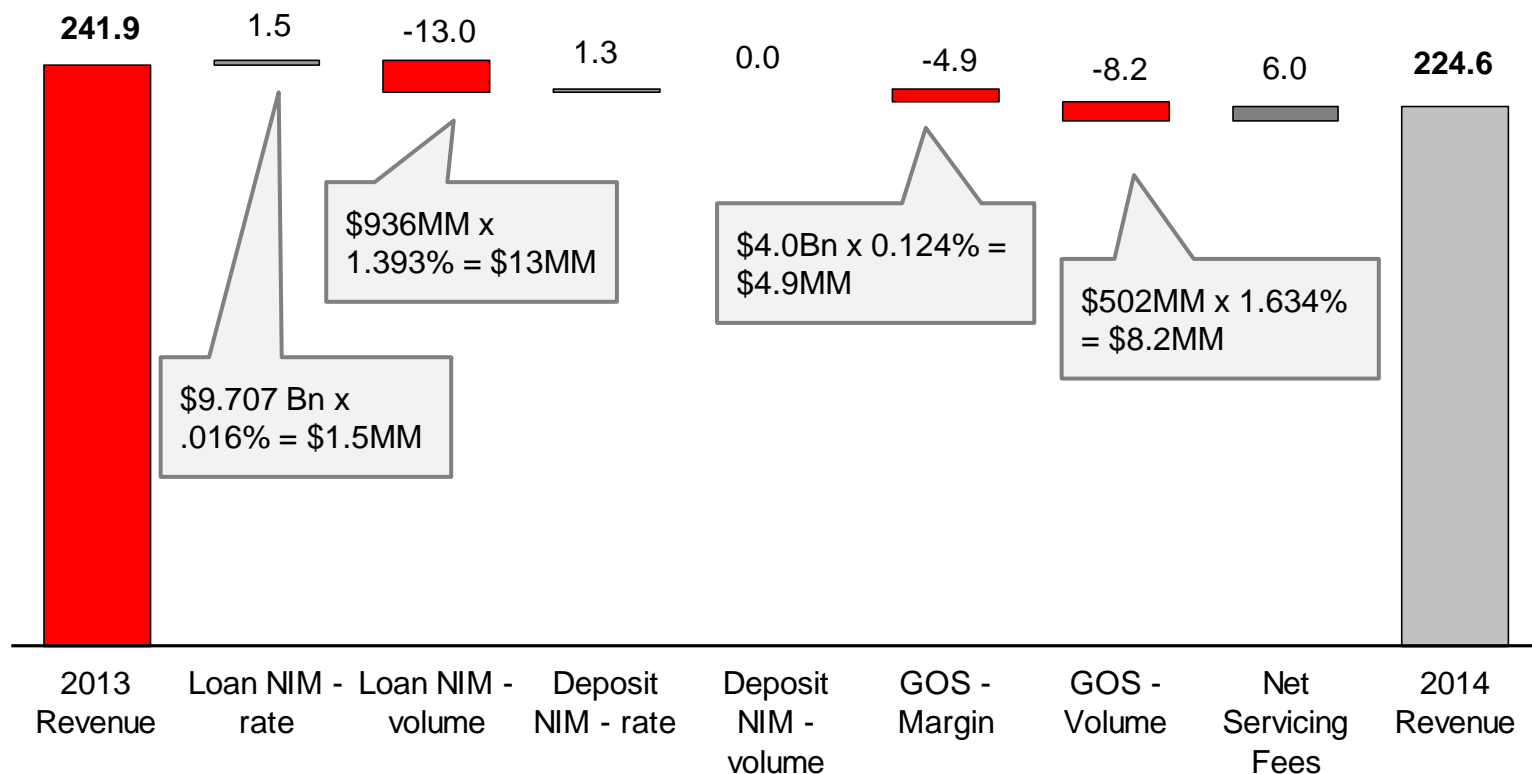
4.0

4.6

5.1

Mortgage Revenue Changes: 2013 to 2014

Change in Revenues from 2013 to 2014



2013-2016 Revenue Forecast: Base case scenario



Figures in \$, 000s

	2013 Budget	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Net Interest Income	151,197	147,654	139,211	129,376	122,852
Gain on Sale	73,550	74,906 ¹	49,091	49,256	49,256
Servicing Fees and other fees	43,183	41,265	41,877	46,186	47,979
Recovery (Impairment)	(26,000)	(21,935)	(18,870)	(17,626)	(18,460)
Total Revenue	241,930	241,890	211,309	207,192	201,627
Direct Operating Expenses	tbd	tbd	tbd	tbd	tbd
Indirect Operating Expenses	tbd	tbd	tbd	tbd	tbd
Total Operating Expenses					
Provisions for Credit Losses	61,000	61,000	tbd	tbd	tbd
Income before Taxes	180,930	180,890	211,309	207,192	201,627
GSE Repurchase Reserve	4,823	6,264	3,251	3,262	3,262

¹ 2013F GOS = \$5.6 MM

2014-2016 Revenue Forecast: expansion plan incremental

Figures in \$, 000s

	2014 Forecast	2015 Forecast	2016 Forecast
Net Interest Income	1,779	5,227	9,758
Gain on Sale	11,288	19,983	28,483
Servicing Fees and other fees	728	3,543	7,074
Recovery (Impairment)	(505)	(2,629)	(5,258)
Total Revenue	13,290	26,124	40,057
Direct Operating Expenses	6,913	11,708	17,300
Indirect Operating Expenses	tbd	tbd	tbd
Total Operating Expenses	6,913	11,708	17,300
Provisions for Credit Losses			
Income before Taxes	6,377	14,416	22,757
GSE Repurchase Reserve	747	1,323	1,886

2013-2016 Revenue Forecast: Total



Figures in \$, 000s

	2013 Budget	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Net Interest Income	151,197	147,654	140,990	134,603	132,610
Gain on Sale	73,550	74,906 ¹	60,379	69,239	77,739
Servicing Fees and other fees	43,183	41,265	42,605	49,729	55,053
Recovery (Impairment)	(26,000)	(21,935)	(19,375)	(20,255)	(23,718)
Total Revenue	241,930	241,890	224,599	233,316	241,684
Direct Operating Expenses	tbd	tbd	tbd	tbd	tbd
Indirect Operating Expenses	tbd	tbd	tbd	tbd	tbd
Total Operating Expenses					
Provisions for Credit Losses	61,000	61,000	tbd	tbd	tbd
Income before Taxes	180,930	180,890	224,599	233,316	241,684
GSE Repurchase Reserve	4,823	6,264	3,998	4,585	5,148

¹ 2013F GOS from sale of MBS = \$5.6 MM

Resource Requirements: People (1/2)



Division	Function	Area to support	Number of FTEs	Timeline for hiring			Estimated cost
				2014	2015	2016	
Mortgage	Retail RSM	Distribution	3	1	1	1	xxx
Mortgage	Retail Sales Manager	Distribution	14	4	5	5	xxx
Mortgage	MDO	Distribution	140	40	50	50	xxx
Mortgage	Wholesale RSM	Distribution	2	1	0	1	xxx
Mortgage	Account Executive	Distribution	9	3	3	3	xxx
Mortgage	House Account Executive	Distribution	1	1	0	0	xxx
Mortgage	Clerical support	Distribution	14	4	5	5	xxx

Resource Requirements: People (2/2)

Division	Function	Area to support	Number of FTEs	Timeline for hiring			Estimated cost
				2014	2015	2016	
Mortgage	Loan Delivery	Secondary Marketing	15	6	4	5	xxx
Risk	Underwriter	Loan fulfillment	12	5	3	4	xxx
Manufacturing	Processor (Retail)	Loan fulfillment	41	17	11	13	xxx
Manufacturing	Processor (wholesale)	Loan fulfillment	13	6	3	4	xxx
Manufacturing	Unifi/QC	Loan fulfillment & Unifi	8	8	0	0	xxx
Mortgage	Production Support	Mortgage Operations	4	2	0	2	xxx
Total Mortgage			276	97	86	93	

Resource Requirements: IT Resources

Project Name	Business Driver	Description	Delivery date	Estimated cost
Auto task development	Business improvement	Automate ordering flooding & appraisal services. Auto tasking will reduce operational expenses	Q4 '13	xxx
CFPB Updates	Regulatory	Programing to ensure compliance with new regulations	Q4 '13	xxx
CFPB	Regulatory	New servers to store data needed to ensure compliance with new regulations	Q4 '13	xxx
SovWeb	Grow revenue	Makes apps more interactive & allows brokers to complete initial GFE	Q4 '13	xxx
Optimal Blue	Grow revenue	Rate service platform for wider distribution in the Correspondent channel	Q4 '13	xxx
Specialty Products (IO)	Grow revenue	Introduction of new products (e.g. IO) to attract affluent borrowers	Q3 '13	xxx
PRIDE Updates	Business Improvement	Automate disclosure delivery and install Drive	Q4 '13	xxx

Resource Requirements: IT Resources

Project Name	Business Driver	Description	Delivery date	Estimated cost
Contiguous offices (4)	Business Expansion	Install Unifi, computers, scanner and printers in new offices	Q4 '13	xxx
MDO Branch Calendar	Business improvement	Help branches to coordinate schedules with MDOs to improve customer experience	Q2 '14	xxx
VMP to CSi conversion	Document conversion	Converts all forms to new platform	Q4 '14	xxx
RatePlug	New Originations	Provides utility to collaborate with Realtors to target prospective borrowers and develop combined marketing collateral	Q1 '14	xxx

Resource Requirements: Marketing

Project Name	Marketing Initiative	Description	Yearly Marketing Requirements (\$)		
			2014	2015	2016
Mortgage Marketing	Rate Monitor	Service to monitor interest rates in various regional markets	3,000	3,000	3,000
Mortgage Marketing	Turning Point Marketing	Customer retention and affinity program	xx	xx	xx
Mortgage Marketing	Marketing Library	Library of Sovereign Mortgage collateral that MDO can use to give to realtors	5,000	5,000	5,000
Mortgage Marketing	Local Realtor Events	Attend and sponsor events that are organized by local real estate boards	155,000	180,000	205,000
Mortgage Marketing	MDO Marketing Allowance	Marketing expense for Sovereign souvenirs and give aways in Contiguous Markets	60,000	156,000	252,000

Executive Summary



Mortgage Industry

- Mortgage industry is commoditized from product perspective
- Distribution reach and excellence in loan fulfillment process are key differentiation factors
- Mortgage industry originations are highly volatile and depend on macro situation
- Industry is expected to decline in 2014 and stay flat through 2016



Mortgage Products

- Sovereign is market competitive in terms of both product suite and pricing
- Only product missing is Interest Only, which is in the approval process



Distribution Plan

- Sovereign sales force is better than industry average in productivity
- Identified high potential counties in the footprint and contiguous areas to penetrate
- Expand into contiguous counties to maximize the origination potential yet not increasing the risk
- Need better support from Facilities and IT in order to execute expansion into contiguous counties



Loan Fulfillment

- Sovereign lags the industry in the loan fulfillment process and hence customer service
- SLAs have been defined and now need to be achieved
- Unifi Support and programming need to be increased to support regulatory changes and business as usual
- The flexible loan fulfillment model needs to be implemented in order to maintain customer service levels during periods of market volatility

Agenda

Market Environment

Competitive Landscape

Our Historical Background

Organic Growth Plan

Appendix

Competitive Diagnostic by State

52



	Loans – Top Five market share Percent	Top Competitors	Sovereign loan market position Index	
• New Hampshire	30	Wells Fargo Citizens Chase Merrimack Mortgage	13	
• Massachusetts	24	Residential Mortgage Bank of America Services Wells Fargo Mortgage Master Chase	5	
• Rhode Island	31	Citizens Wells Fargo Chase Bank of America	3	
• Connecticut	29	Wells Fargo Chase Bank of America Webster Financial Quicken	11	
• Pennsylvania	31	Wells Fargo Bank of America Trident Mortgage Quicken	6	
• New Jersey	39	Chase Wells Fargo Chase Bank of America Quicken Valley National	15	
• New York	42	Wells Fargo Chase Citi Mortgage Bank of America Bethpage	23	

• Top competitors are primarily large national institutions

• Most markets are highly fragmented

GSE relationships: Future Structure ?



Lenders



CHASE



citi



Private Guarantor



Private
Guarantor 3

Private
Guarantor 4

Government Guarantee

Mortgage
Security



Investor

CFPB Ability to Repay Standards



Eight Underwriting Factors that must be met:

- Current expected income or assets
- Current Employment status
- The monthly payment on the covered transaction
- The monthly payment on any simultaneous loan
- The monthly payment for mortgage-related Obligations
- Current debt obligations, alimony and child support
- The monthly debt-to-income ratio or residual income
- Credit history

* In addition, lenders must rely on verified and documented information and must verify a consumer's income or assets using a consumer's tax return or third party documents that provide reasonably reliable evidence of the consumer's income or assets.

Potential Impact:

- **Make have to make limited changes to current underwriting policies and guidelines.**
- **Must maintain support for the ability to repay for a minimum of 3 years.**
- **May increase the time and cost to underwrite a file .**
- **May make loans to self-employed borrowers more challenging as their income is more difficult to verify.**
- **Eliminates the use of any reduced or no documentation loans – we presently are not offering this type of product.**

Overall the underwriting factors do not seem to impose any major change to our current practices.

Definition of Qualified Mortgage

Definition of Qualified Mortgage:

- Terms of the mortgage must not include any negative amortization, interest only payments or balloon payments.
- Life of loan can not exceed 30 years.
- Lender must verify borrower income.
- Points and fees paid by the consumer (including those used to compensate originators or brokers, fees for appraisals and title work paid to affiliates of the lender) can not exceed 3% of the total loan amount (except for loans under \$100,000)
- The lender must calculate payments based on the highest monthly payments required any time during the first five years of the mortgage and total back-end debt to income may not exceed 43%
- Alternative test for 7 years after the effective date of the rule : If debt to income exceeds 43% but loans are eligible for sale to GSE the loan is still a qualified mortgage

Potential Impact:

- Continue not offering reduced or no documentation loans
- Need to evaluate risk of offering interest only loans which we are in the process of starting to offer.
- Need to eliminate any products with 40 year terms.
- On Jumbo loans we may need to change our debt to income standard; may also need to do that on all conforming loans not sold to GSEs.
- Need to evaluate if we should retain our ownership interest in Pa. and NJ title agencies (\$1 million in fees annually).
- CFPB ruling on points and fees definition is still not complete and this will need to be monitored

Overall there is large amount of work to be done in terms of reviewing product descriptions and evaluating changes to products and systems

CFPB Ability to Repay Standards

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- Current Employment status
- The monthly payment on the covered transaction
- The monthly payment on any simultaneous loan
- The monthly payment for mortgage-related Obligations
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Overall the underwriting factors do not seem to impose any major change to our current practices.

Consequences of violations of the CFPB Ability to Repay Rule

- 1) Violations of the Ability to Repay Rule are enforceable by the CFPB through its administrative enforcement authority:
 - a) Ability to impose cease and desist orders
 - b) Ability to impose civil money penalties to address violations of laws
- 2) Private action by borrowers within 3 years of the violation:
 - a) Actual Damages
 - b) Statutory damages in an individual action or class action , up to a certain threshold
 - c) Damages equal to all finance charges and fees paid by the consumer
 - d) Court costs and attorney fees that would be available for violations of TILA
- 3) Defense to foreclosure

Potential Impact:

- 1) Payment of damages to borrowers if violations are noted
- 2) Cease and desist orders
- 3) Civil Money penalties
- 4) Must ensure compliance with the new rule and also review our record retention requirements to ensure we can prove compliance with the rule to combat assertions to slow down foreclosures.

Overall the new rule does seem to pose any major challenges to our current practices.

Qualified Mortgage (QM) – Presumptions of Compliance

1) QM safe harbor –

- a) Meet all the QM underwriting requirements
- b) Interest rate may not be more than 1.5% points over the Average Prime Offer Rate for a first-lien loan
- c) Interest rate may not be more than 3.5% points over the Average Prime Offer Rate for a subordinate loan

2) Higher -priced QM rebuttable presumption

- a) Higher-priced QM is entitled to a rebuttable presumptions if it meets all the QM underwriting requirements
- b) Interest rate is greater than 1.5% points over the Average Prime Offer Rate for a first-lien loan
- c) Interest rate is greater than 3.5% points over the Average Prime Offer Rate for a subordinate loan

Potential Impact:

- 1) Lender is presumed to have complied with the Ability to Repay Rule if it meets the minimum underwriting standards. A borrower can rebut this by raising specific facts that the lender was aware of at origination that demonstrate that the consumer's income and debt obligations left insufficient income to meet living expenses.
- 2) Market may price a loan that meets safe harbor rule differently than a rebuttable presumption exception.
- 3) The interest rate thresholds may create challenges for Jumbo loans and small balance loans.

We need to assess how much impact this is for us.

Qualified Mortgage (QM) – Exemption for Certain Refinancings

1) Exemption for refinancing “non-standard mortgages” into “standard mortgages”–

- a) Non-standard mortgage includes adjustable rate loans with an introductory fixed rate of one year or longer, interest-only loans and negative amortization loans.
- b) Standard mortgages must include a fixed rate for at least 5 years and must reduce consumer's monthly payments.

Potential Impact:

- 1) Exemption applies where refinancing materially reduces the borrower's monthly payment and where the lender has considered whether the standard mortgage likely will prevent a default by the consumer on the non-standard mortgage once the loan is recast.
- 2) Available only on loans where the lender holds the original non-standard mortgage and the new standard mortgage, the borrower's payment history meets certain performance standards, and the borrower submits a written application within 2 months of the date the non-standard mortgage is recast.

CFPB Ability to Repay Rule – Prepayment Penalties

Prepayment Penalties

- 1) Prohibits prepayment penalties except for certain fixed-rate, qualified mortgages where the penalties satisfy certain restrictions (limited to no more than 3 years) and the creditor has also offered the consumer an alternative loan without prepayment penalties

Potential Impact:

- 1) Limits the products that can include prepayment penalties and limits the terms of prepayment penalties.

Overall this provision of the rule should have very little impact on us.

Regulatory Environment

Already over regulated Mortgage business is facing many more regulations due to the financial crisis; requiring to modify the business fundamentals and economics

New/Modified Regulations

Patriot Act (AML/BSA/OFAC)
 Equal Credit Opportunity Act (Reg B)
 Fair Lending
 Uniform Loan Data Delivery (FNMA, FHLMC)
 Fair Credit Reporting ACT/FACTA (Reg V)
 Real Estate Settlement Procedure Act (Reg X)
 Truth in Lending (Reg Z)
 Homeowner's Protection Act
 SAFE Mortgage Licensing Act (Reg G)
 Complaint Practices (Reg AA)
 Flood Disaster Protection Act
 Consumer Protection in the sale of insurance
 Appraisal & Appraiser Standards
 Anti-predatory lending (GSE requirements)

Other Existing Regulations

GRAMM-LEACH-Bliley Act of 2009
 Control of Confidential Information
 Homeownership counseling
 Alternate Mortgage Transaction parity Act of 1982
 Telephone Consumer Protection Act & Junk Fax
 Home Mortgage Disclosure Act (Reg C)
 Homeownership & Equity Protection Act of 1984 (HOEPA)
 Fair Housing Act
 Service Member Civil Relief Act (SCRA)
 Community Reinvestment Act (Reg BB)
 Transaction with Affiliates (Reg W)
 Unfair & Deceptive Practices (Reg AA)
 & many more

Each regulatory change requires modifications to systems, revised procedures, forms, and disclosures, training materials and, finally, on-going monitoring. This has substantially increased the cost basis.

Business Strategy

Pros & Cons analysis



	1	2	3	4
	Originate & hold	Originate, securitized & hold	Originate, sell & retain servicing	Originate, sell & release servicing
Positives	<ul style="list-style-type: none"> Generates NIM More product diversity (ie. Jumbo loans) CRA¹ rating 	<ul style="list-style-type: none"> Generates NIM RWA 20% Liquidity 	<ul style="list-style-type: none"> Gain on Sale RWA 0% No convexity, credit and interest rate risk 	<ul style="list-style-type: none"> Gain on Sale RWA 0% No convexity, credit and interest rate risk
Negatives	<ul style="list-style-type: none"> Interest rate risk Convexity risk Credit risk Loan-to-deposit ratio RWA 50% 	<ul style="list-style-type: none"> Interest rate risk Convexity risk Mark-to-market volatility Repurchase risk MSR impairment GSE counterparty risk 	<ul style="list-style-type: none"> Future NIM forfeited Volatile revenue stream Secondary market risk Repurchase risk MSR impairment 	<ul style="list-style-type: none"> Future NIM forfeited Volatile revenue stream Secondary market risk Repurchase risk

These options are limited to conforming loans

Business Strategy

Risk implications

- ✓ Exists risk
✗ No risk

1

Originate & hold

2

**Originate,
securitized
& hold**

3

**Originate, sell &
retain servicing**

4

**Originate, sell &
release servicing**

Credit risk



Traditional
cost-of-credit of
individual



GSE assumes credit
risk from the individual
for a fee...



Mortgage is sold...



Mortgage is sold...

Counter party
risk



...but creates a
counterparty risk ...



Repurchase
risk



...and the GSE may try
to force repurchase if
loan does not conform
to guidelines



...but the GSE may try to
force repurchase if loan
does not conform to
guidelines



...but the investor
may try to force
repurchase if loan
does not conform to
guidelines

Market risk



Traditional
convexity risk and
interest rate risk



MSR impairments and
MBS valuation risk



MSR impairments and
Secondary market
exposure



Secondary market risk
exposure

In addition, the business has today significant Compliance risk

Mortgage Banking Update – Retail Loan



Assumption – Origination

Loan at par (100.0)

FASB costs less fees of 14 bps (58bps expense – 44bps fees)

Total basis of loan 100.14

FASB amortization over 6 years is 2 bps reduction in yield.

Detail of FASB Costs - Assuming 225k Retail Loan

Gross Cost to Originate (estimate) - \$3,200 less application fee (\$399)
credited to expense = \$2,801

FASB costs – Commission of \$1,035 (46bps* 225,000) and Other costs of
\$266 (12bps*225,000) = \$1,301 (58bps)

Non-FASB costs (estimate) - \$1,500 (\$2,801-\$1,301 or 66bps)

FASB Fees of \$ 998 (44bps*225,000)

Mortgage Banking Update – Retail Loan

Assumption – Operational costs (loan and MBS)

Average loan of \$225,000

Cost of 5 bps or \$112 (should be conservative)

Cost of Credit – 31 bps

Assumption – Net servicing fees (loan)

Late charges, float income and ancillary income – assumed to be 5 bps

Sale of loan

Gain from May 7 price sheet	1.56
MSR	1.00
Fasb expenses	-.14
Repurchase reserve	-.10
Non- Fasb expenses	-.66
Gain on sale	1.66

Mortgage Banking Update – Swap and hold (Retail Loan)

Swap and hold

Create MBS , monetize buyup fee net of adverse market fee and create servicing asset

Debit MBS 100.30

Debit MSR 1.00

Credit Cash 1.16 (buydown fee for .125 in guarantee fee)

Credit Loan 100.14

Amortize discount over life of MBS (6 years) = 15 bps increase in yield.

Assumption – Net servicing fees (MBS)

Late charges, float income and ancillary income – assumed to be 5 bps

Gross service fee income – 25bps

Amortization of MSR of 100 bps over 6 years = (17bps)

Gross service fee minus amortization of MSR = 8bps

Total net servicing fees 13bps

Mortgage Banking Update – Swap and hold (Retail Loan)

Assumption – capital of \$1 million (loan)

$$1,000,000 \times 50\% \times 11\% = 55,000$$

Assumption – capital of \$1 million (MBS)

$$1,000,000 \times 20\% \times 11\% \times 10/12 = 18,334 - 10 \text{ months as MBS}$$

$$1,000,000 \times 50\% \times 11\% \times 2/12 = 9,166 - 2 \text{ months as loan before SWAP}$$

$$\text{MSR} - 1,000,000 \times 1.00 \times 100\% \times 10/12 = 8,334$$

$$\text{Total capital} = \$35,834$$

Assumption – capital of \$1 million (Sale)

$$1,000,000 \times 50\% \times 11\% \times 2/12 = 9,166 - 2 \text{ months as loan before sale}$$

$$\text{MSR} - 1,000,000 \times 1.00 \times 100\% \times 10/12 = 8,334$$

$$\text{Total capital} = \$17,500$$

Product Development

Sovereign offers all the mortgage products to be competitive (except interest only)

▶ Product Environment

Industry is stable with little innovation in current environment because of tighter credit guidelines, lack of a secondary market for certain products, lack of private label securities and increased regulatory & compliance burden

▶ Harp 2.0 (new product)

- This program provides refinance opportunities for Borrowers who have demonstrated an acceptable payment history on their current mortgage but may be unable to refinance. Program is targeted toward but not limited to borrowers who are in negative equity positions in their homes.
- Program allows for unlimited LTV/CLTV
- Loans are sold to FNMA or FHLMC

▶ Interest Only (product gap)

Niche product available in Market that would allow Sovereign to capture business and offer an alternative to current menu. Unifi support programming constraints have delayed product offer by one year. With advent of Qualified Mortgage (QM) we may not offer in 2014.

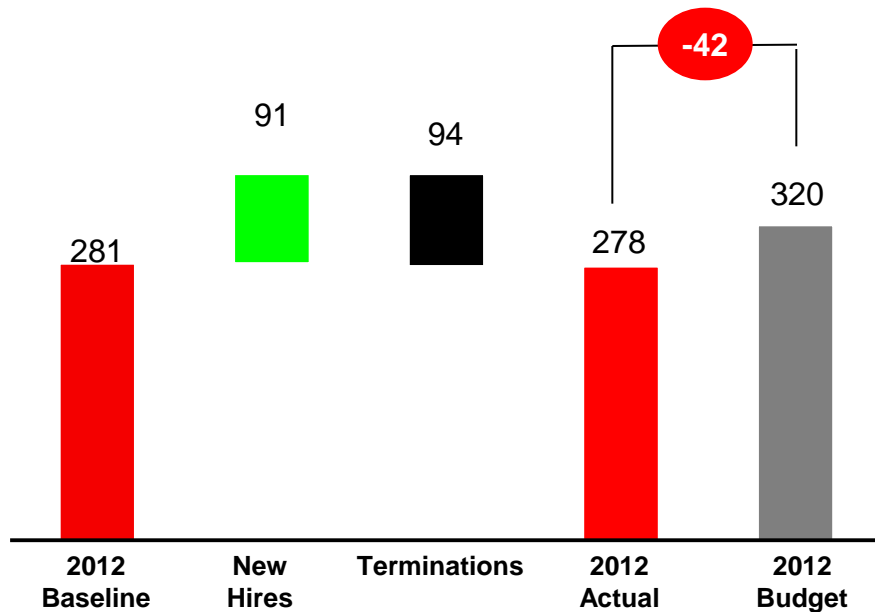
Santander Select Offer

Mortgage division in partnership with the Retail segments, is providing market leading mortgage offers

Customer Segment	Retail Product	Mortgage Offer
Mass Affluent	Santander Select	0.125% discount or \$500 off closing costs
Mass Affluent/ Mass Market	Premier	\$500 off closing costs
Mass Affluent/ Mass Market	SAW Premier	\$500 off closing costs
Mass Market/ Lower Mass Market	SAW Preferred	\$250 off closing costs
Small Business	Business Premier	\$500 off closing costs
Small Business	SAW Business Premier	\$500 off closing costs

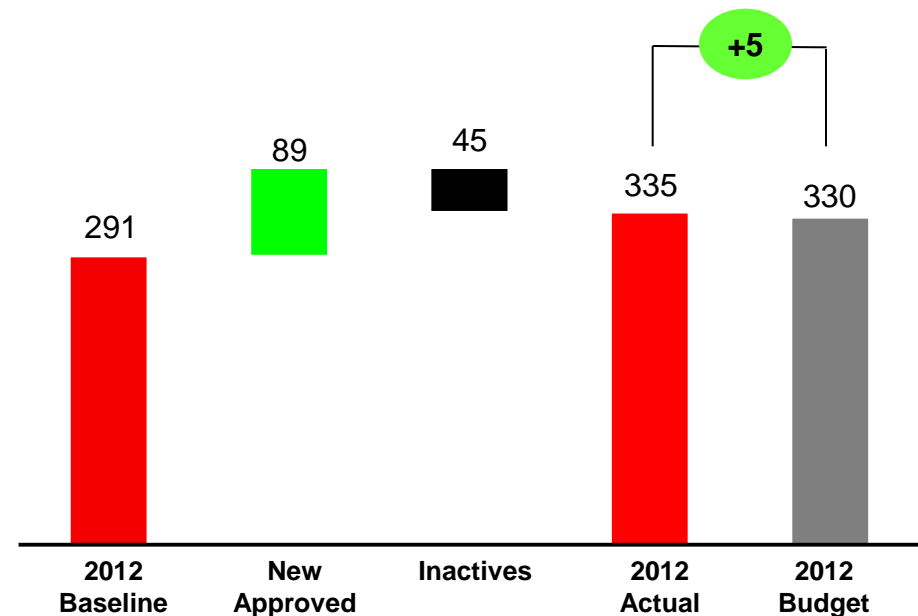
Phase I(a) Scale Up (2012)

2012 MDO Hiring Status



- Hired 2 new Sales Managers compared to the plan of 5

2012 Broker Approval Status



- Lost 1 Account Executive compared to the plan of hiring 1

High Potential Counties Definition



Variables	Correlation	Weightage
2009 Population	80%	25%
2009 Avg HH income	60%	5%
2009 housing units	70%	20%
2009 housing unit, owner	80%	10%
2009 housing units, renters	60%	10%
2009 median value of owned HUs	60%	10%
Estimated total number of employed people	70%	20%



Co-relation Coefficient

Highest	4.05
Lowest	0.05
Average	0.47
Median	0.24



We defined that counties with correlation coefficient of more than 1.0 and population of more than 100,000 are high potential counties



29 high potential counties were identified

Mortgage Marketing Initiatives

Marketing Tool	Existing or New (E/N)	In Footprint	Contiguous Counties
HARP Program	N	✓	✗
RatePlug	N	✓	✓
Marketing Library	N	✓	✓
Realtor Newsletter	E	✓	✓
Website Mortgage Page	N	✓	✓
Santander Select Offer	N	✓	✓
Premier Discount	E	✓	✓
Preferred Offer	N	✓	✓
Interstitial Ads	E	✓	✓
Statement Messaging	E	✓	✓
Local Realtor Events	N	✓	✓
MDO Marketing Allowance	N	✓	✓
Mortgage Days	E	✓	✗
Online Prequalification	N	✓	✗

Phase II Scale Up (2014): Distribution Strategy

- Expansion in the contiguous counties is dependent on the necessary budgetary approvals for additional costs

Distribution Strategy

Retail

- Focus MDO hiring: +5 within footprint & +35 in contiguous counties
- Improve service levels & update SLAs
- Implement consistent behaviors between Network & MDOs
- Target 0.53 closings per branch per month
- Continue cross-selling home equity, insurance & DDAs

Wholesale

- Hire 3 Account Executives
- Hire 1 House Account Executives
- Expand broker base by 30
- Improve broker management process
- Improve service levels & SLAs
- Assess participation with rate distribution network

Contiguous County Expansion*

State	County	Regional Manager	MDO Hires	Target Date
Connecticut	Fairfield	TBD	9	Q1
Maryland	Prince Georges	Sherry Cronin	8	Q2
New York	Nassau	Richard Kilfoil	8	Q3
New Jersey	Bergen	Ron Barnett	10	Q4
		Total	35	

Villanova Pilot Kick-Off: Status Update



Beginning Monday, February 4, 2013 the following new processes took effect:

Villanova MDOs

- New MDO checklist has been fully adopted
- Focus on complete applications (training and monitoring)

Villanova Openers

- Appraisal management instituted to proactively engage vendors
- Modified refinance workflow is improving our file submission quality
- Increased appraisal oversight and overall improved pipeline management

Villanova Underwriters

- Deployed Underwriting checklists to increase quality in secondary market
- Pipeline management will be expanded to include resubmissions from processing

Processors (effective May 7)

- Reviewing staffing and capacity
- Increase oversight of pipeline management (suspended and aged inventory)
- Increase management of processor workflows
- Deploy a structured communication plan/schedule to MDOs
- Implement processing team model to increase coverage

Villanova Closers

- Expand QC focus to purchase transactions
- Team will be focusing on closing package delivery time

Improving a process entails improving each step and, most importantly, improving *how each step interacts with each other*, which requires a great amount of team work; to help facilitate this working together a *daily huddle* will be held

Pilot Operational Results: Villanova



	Metrics	Status	Target	February/March/April			May (MTD)	
				February	March	April	1st Half	2nd Half*
Pipeline	Avg apps funding duration	●	<50	66.7	59.7	64.2	58.1	62.1
	% Apps funded exceeding 60 days	●	<15	46%	33%	40%	34%	44%
	% Pipeline above 60 days	●	<10%	24%	23%	26%	25%	27%
By process	MDO	% incomplete	<10%	25%	26%	20%	11%	12%
		SLA (80% within 14 days)	80%	92%	90%	89%	92%	96%
	Opening	Avg inventory duration	4	7.3	5.1	5.6	4.2	4.1
		SLA (90% within 5 days)	90%	100%	99%	100%	100%	99%
	UW	Avg duration of initial decision	4	4.5	3.1	3.9	3.7	4.0
		SLA (80% within 5 bus. days)	80%	85%	98%	94%	100%	96%
	Processing	Avg inventory duration	18	24.3	22.5	24.8	23.4	21.6
		SLA (80% within 21 days)	80%	60%	65%	68%	65%	62%
	Closing	Avg inventory duration	6	5.8	4.0	3.3	3.3	2.6
		SLA (80% within 10 days)	80%	75%	83%	85%	86%	81%

Villanova Pilot: Action Items

Implement Team Model

- Identify the Processing Team Leads (Copley, Barikia, Smith)
- Implement the team concept, while capacity balancing each processor's pipeline
- Identify additional contingent workers to assist the processing teams in completing VOE requirements, subordination monitoring, pre-closing activities and condition re-submissions
- Pipeline Management
 - ❖ Daily work plan and prioritization determined by the Processing Manager
 - ❖ Restacking of the Processors pipeline to focus on straight through items (increase velocity)
- Backlog remediation
 - ❖ Setting hard cut-offs for incomplete files within Opening (i.e. 20 days)
 - ❖ Monitor Suspended >30 days based on MDO/Customer complexity
- Implement the customer interaction model to all Team Leads first
- Proposed effective dates:
 - ❖ Team transition and capacity allocation: 5/10 (Joe Duffy to receive transition list on 5/6)
 - ❖ Pipeline transitions: 5/10
 - ❖ Pipeline moves (file prioritization): 5/13

Communication Plan

- Development of a daily schedule for Processors to communicate with their MDO's (i.e. defined office hours)
- Drive communications with the use of UNIFI and NotePad to drive adoption and self servicing
- Define MDO/Sale Manager escalation process with Kate & John
- Define agenda and accountability between MDO and Processors for each meeting
- LPO will provide oversight of the Processors and compliance with their scheduled time
- Proposed effective date: 5/8

Processor tenure / risk assessment

- Conduct a full team skillset assessments to define the GAP areas
 - ❖ Develop a training plan and timeline to ensure Processors have a formalized plan
 - ❖ Determine the core possible changes to team members (move lower performing processors out)
- Proposed effective date: 5/10

Toms River Kick-Off: Status Update

Beginning Monday, April 1, 2013 the following new processes took effect:

Toms River MDOs

- New MDO checklist rolled out with 100% adherence
- Focus is on submission of complete applications (training, detailed error identification and monitoring)

Toms River Openers

- New Opener checklist and expanded Opener responsibility
- Initial pipeline management is fully deployed
- Modified refinance flow implemented and increasing file quality to UW
- Proactive appraisal management work plan underway

Toms River Underwriters

- Deployed the new checklist, pipeline management and express track process
- Implementing in May: Reassignment of some condition clearing to sr. processors

Toms River Processors

- Pipeline management (suspended and aged inventory)
- Implementing in late May: Checklists, team model, final training and customer focused communication model

Toms River Closers

- Focus on QC before closing and funding
- Modification of tasks to ensure complete files are being delivered to Closing
- Implementing in May: Checklists, closing package deliver, funding scheduling

Toms River's implementation is on schedule and has a high adoption rate across the staff. The teams are benefiting the rollout within the pilot site and having all core system enhancements in place.

Loan Fulfillment Process

Pilot Operational Results: Toms River

Metrics		Status	Target	April	May (MTD)	
				April	1st Half	2nd Half*
Pipeline	Avg apps funding duration	●	<50	61.4	57.1	53.7
	% Apps funded exceeding 60 days	●	<15	39%	35%	30%
	% Pipeline above 60 days	●	<10%	28%	25%	21%
By process	MDO	% incomplete	●	<10%	28%	15%
		SLA (80% within 14 days)	●	87%	95%	96%
	Opening	Avg inventory duration	●	4	4.2	4.1
		SLA (90% within 5 days)	●	99%	100%	98%
	UW	Avg duration of initial decision	●	4	3.7	4.4
		SLA (80% within 5 bus. days)	●	97%	100%	96%
	Processing	Avg inventory duration	●	18	23.0	22.4
		SLA (80% within 21 days)	●	59%	65%	62%
	Closing	Avg inventory duration	●	6	7.6	6.5
		SLA (80% within 10 days)	●	77%	77%	65%

Note: Total funding durations excludes CEMA or Co-Ops. This is the only area within the pipeline metrics that these applications are excluded. Unifi data as-of May 23, 213

Assumptions for revenue calculations – 2014-2016



2014

- Average Loan & MBS Balances - \$9.707 billion
- Loan Yield – 1.409%
- New Loan Portfolio Production Spread – 1.87%
- Portfolio runoff -15%
- Loan Locks - \$3.998 billion
- Gain on sale margin - 1.51% (net of .10% repurchase reserve)
- Average Deposits - \$284.3 million
- Deposit FTP – 1.48%

2015

- Average Loan & MBS Balances - \$9.008 billion
- Loan Yield – 1.43%
- New Loan Portfolio Production Spread – 1.87%
- Portfolio runoff -15%
- Loan Locks - \$4.585 billion
- Gain on sale margin - 1.51% (net of .10% repurchase reserve)
- Average Deposits - \$292.4 million
- Deposit FTP – 1.98%

2016

- Average Loan & MBS Balances - \$8.508 billion
- Loan Yield – 1.447%
- New Loan Portfolio Production Spread – 1.87%
- Portfolio runoff -15%
- Loan Locks - \$5.148 billion
- Gain on sale margin - 1.51% (net of .10% repurchase reserve)
- Average Deposits - \$301.4 million
- Deposit FTP – 3.16%

Phase II (2014): Staffing

Mortgage division needs additional human resources to meet usual business requirements , enhanced regulatory needs and expansion plans.

Mortgage Sales

	Salary
Secondary	
Shippers	\$110,000 (3 FTEs)
Auditors	\$110,000 (3 FTEs)
Production Support	
★ Policy & Procedures	\$75,000
★ MDO Trainer	\$80,000
Receptionist – new office	\$140,000 (4 FTEs)
Distribution	
Regional Sales Manager	\$100,000
Retail Sales Manager	\$160,000 (4 FTEs)
House Account Executive - Wholesale	\$40,000

Manufacturing

	Salary
Wholesale Processing	
Processors	\$296,757 (6 FTEs)
Retail Processing	
Processors	\$842,743 (17 FTEs)
Quality Control & UNIFI	
★ Pre-fund quality control & UNIFI	\$532,000 (8 FTEs)

Risk

	Salary
Credit Risk	
Underwriters	\$462,000 / FTE (5 FTEs)



Mortgage Banking – 2014 Forecast

Income Statement

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Figures in \$, 000s

	2014 BAU	2014 Incremental	2014 Forecast
Net Interest Income	139,211	1,779	140,990
Gain on Sale	49,091	11,288	60,379
Servicing Fees and other fees	41,877	728	42,605
Recovery (Impairment)	(18,870)	(505)	(19,375)
Total Revenue	211,309	13,290	224,599
Direct Operating Expenses	tbd	6,913	tbd
Indirect Operating Expenses	tbd	tbd	tbd
Total Operating Expenses		6,913	
Provisions for Credit Losses	tbd		tbd
Income before Taxes	211,309	6,377	217,686

GSE Repurchase Reserve

2014F -BAU	3,251
2014F - Incremental	747
Total	3,998



Mortgage Banking – 2015 Forecast

Income Statement

Figures in \$, 000s

	2015 BAU	2015 Incremental	2015 Forecast
Net Interest Income	129,376	5,227	134,603
Gain on Sale	49,256	19,983	69,239
Servicing Fees and other fees	46,186	3,543	49,729
Recovery (Impairment)	(17,626)	(2,629)	(20,255)
Total Revenue	207,192	26,124	233,316
Direct Operating Expenses	tbd	11,708	tbd
Indirect Operating Expenses	tbd	tbd	tbd
Total Operating Expenses		11,708	
Provisions for Credit Losses	tbd		tbd
Income before Taxes	207,192	14,416	221,608

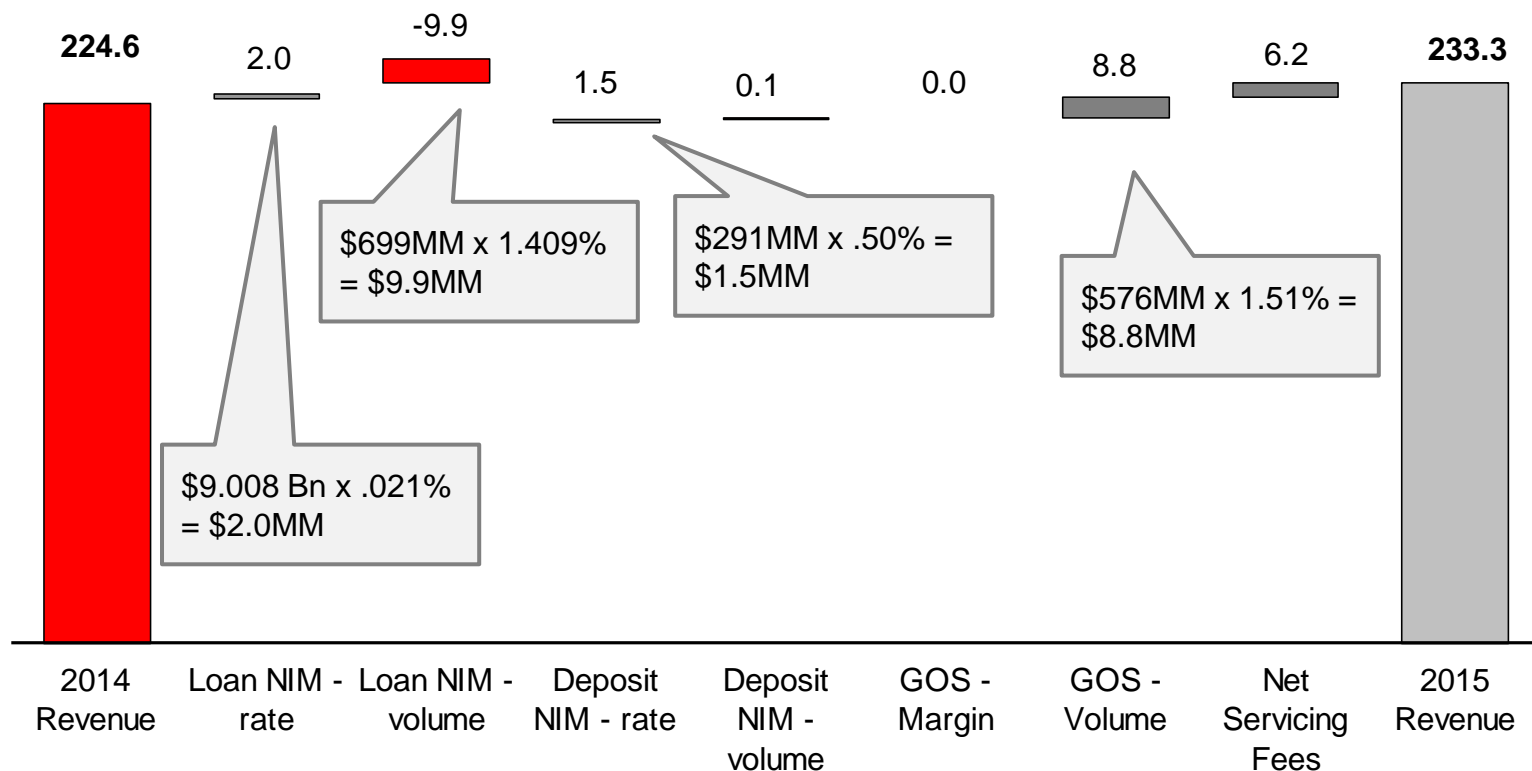
GSE Repurchase Reserve

2015F -BAU	3,262
2015F - Incremental	1,323
Total	4,585



Mortgage Revenue Changes: 2014 to 2015

Change in Revenues from 2014 to 2015



Mortgage Banking – 2016 Forecast

Income Statement

Figures in \$, 000s

	2016 BAU	2016 Incremental	2016 Forecast
Net Interest Income	122,852	9,758	132,610
Gain on Sale	49,256	28,483	77,739
Servicing Fees and other fees	47,979	7,074	55,053
Recovery (Impairment)	(18,460)	(5,258)	(23,718)
Total Revenue	201,627	40,057	241,684
Direct Operating Expenses	tbd	17,300	tbd
Indirect Operating Expenses	tbd	tbd	tbd
Total Operating Expenses		17,300	
Provisions for Credit Losses	tbd		tbd
Income before Taxes	201,627	22,757	224,384

GSE Repurchase Reserve

2016F -BAU	3,262
2016F - Incremental	1,886
Total	5,148



Mortgage Revenue Changes: 2015 to 2016

Change in Revenues from 2015 to 2016

