

U.S. Mortgage Industry Overview

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Common product types:

- ✓ Fannie Mae, Freddie Mac, Ginnie Mae: **30**, 25, 20, **15**, 10 year fixed rate
- ✓ Jumbo (Mortgages over \$333,700 for 2004)
- ✓ Adjustable Rate Mortgages (ARMs)
- ✓ Alt – A mortgages (streamlined for borrowers with good credit)
- ✓ Home Equity Lines of Credit (HELOCs) / 2nd Mortgages
- ✓ Products repayable at any time without penalty

New Purchases and Refinance

2 MAIN TYPES OF MORTGAGE TRANSACTIONS

PRIMARY SOURCES

NEW PURCHASES



Relationship Driven
• Realtors, Builders, Developers, Bankers

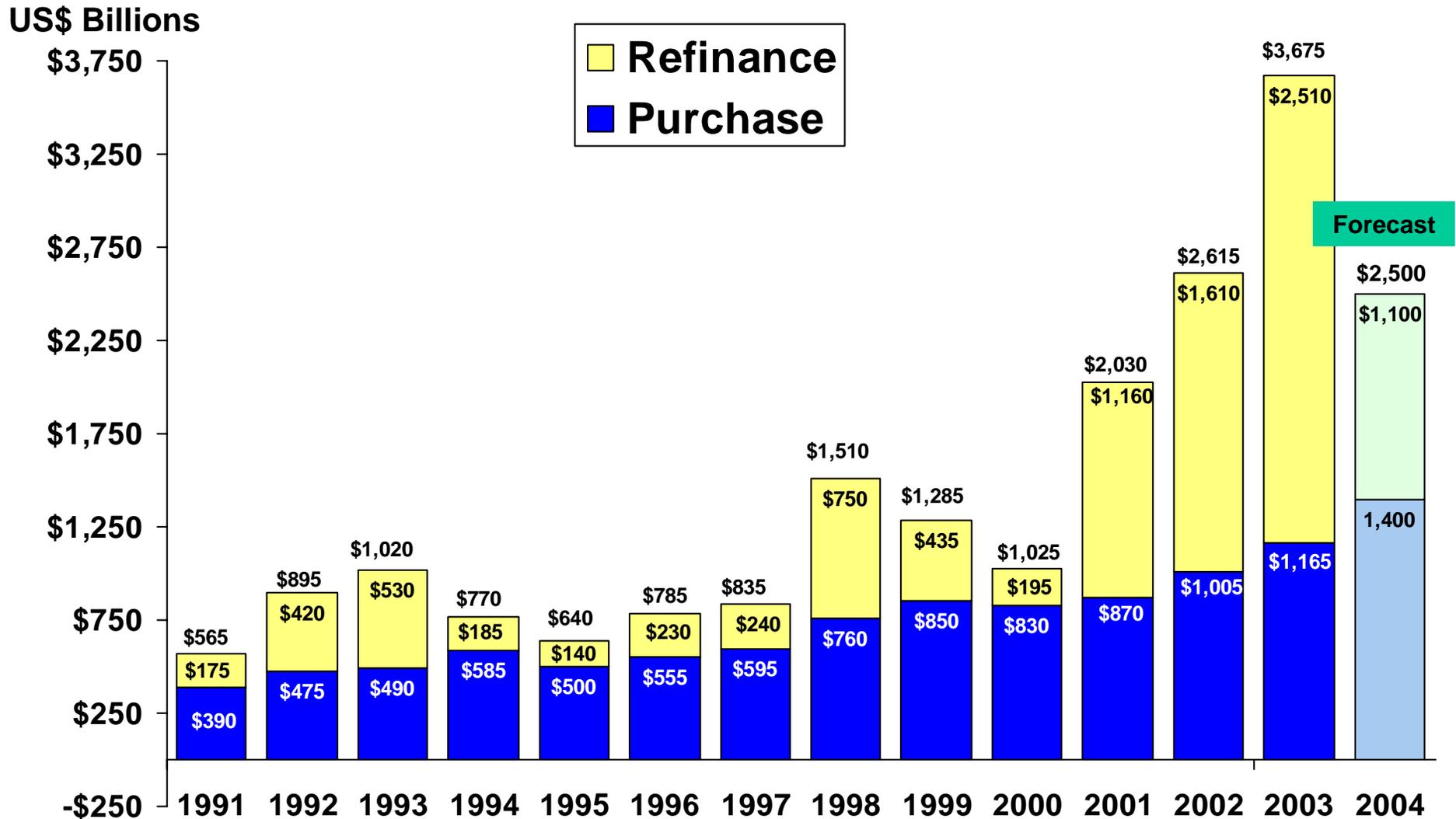
REFINANCINGS



Rate Driven
• Direct Marketing, Client Referrals

U.S. Mortgage Industry Trend

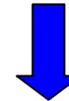
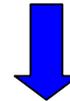
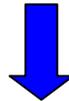
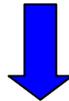
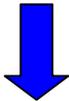
Refinance versus Purchase



* Data source: Mortgage Bankers Association of America



How Mortgage Banking Works in the U.S.



<ul style="list-style-type: none"> • Start of the process • New purchases or refinances • Client and Loan Officer negotiate • Originated through retail (branch) or wholesale (broker) channel • Client is pre-qualified 	<ul style="list-style-type: none"> • Client and Loan Officer agree to proceed (not legally bound) • Mortgage rate commitment is given to the client (15-60 days) • Hedged by Secondary Marketing 	<ul style="list-style-type: none"> • Loan is analyzed for risk (loan-to-value, debt-income, etc..) • Unique criteria are required for certain programs (e.g. conforming to Fannie Mae or Freddie Mac requirements) 	<ul style="list-style-type: none"> • Loan closes • The originator funds the mortgage through its line of credit (warehouse line) until the loan is sold to Investors in the secondary market (usually 15 – 60 days) 	<ul style="list-style-type: none"> • Loan to be sold includes two pieces – the actual mortgage and the associated servicing rights • Originator ships loan documentation (collateral) to Investor to close sale
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How Money is Made in Mortgage Banking



- Hedges are entered into to ensure consistent margins between the time the loan is locked and the time the loan is sold to Investors – primarily using forward contracts and options
- Miscellaneous fee income
- Quantitative Risk Management (QRM) software is the industry standard used by the majority of the leading U.S. mortgage companies to help manage interest rate risk

- Interest income is earned on the spread between the rate of the funded mortgage while holding the mortgage on the warehouse line, and the interest rate paid on the warehouse line (funding cost)
- Non-Interest Income is generated through the collection of one-time fees and annual captive reinsurance premiums
- Servicing revenues are also received (non-interest income) while holding the mortgage

- Two sources of Non-Interest Income are: (1) Gain/Loss on sale of Mortgage and (2) the sale of servicing rights (key income generator)
- Income is dependent on sale price (determined by current interest rates, product sold, yield (mortgage rate charged), delivery, and hedge costs)

RBC Mortgage Revenues

<i>US\$ millions</i>	Q1/04	Q1/03	Variance Q1/04 vs Q1/03
<i>RBC Mortgage revenue</i>	27	53	(26)
<i>Variance due to:</i>			
Origination and warehouse volumes	-	-	(28)
Hedging costs	-	-	(9)
Sterling Capital Mortgage acquisition & other	-	-	11
Total variance			(26)



RBC Mortgage Quarterly Revenues & Origination Volumes

<i>RBC Mortgage US \$</i>	Q1/04	Q4/03	Q3/03	Q2/03	Q1/03
Origination volumes (\$ billions)	\$3.5	\$6.3	\$7.9	\$7.2	\$7.3
Total revenues (\$ millions)	\$27	\$6	\$61	\$52	\$53