Today's discussion

- Presentation Overview and Summary Recommendations
- Mortgage Market Trends
- Monoline Lifecycles
- Phineas Valuation
- Citigroup Recommendations

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Strategic questions for Phineas' board of directors

I. How valuable is Phineas to shareholders given its traditional business model and current market and regulatory environments? How does that value – and the business performance it implies – compare to comparable companies?

II. How valuable is the charter to shareholders, net of its costs? How are the benefits and costs of the charter distributed across Phineas' activities?

III. How permanent are the shifts we've seen in the market and regulatory environments and how intense should we expect future change to be?

IV. What kind of threat do those changes pose to Phineas' business model?

V. What is Phineas good at, beyond leveraging the benefits of its charter status?

VI. What are the market opportunities for future earnings per share growth and how does those align with what Phineas is good at and with its charter benefits, costs and constraints?

VII. What strategies and tactics are available to optimize shareholder value, within the charter and through alternative regulatory frameworks?

VIII. What can we learn from other industries and other organizations that have experienced analogous pressures and challenges?

IX. Is a full privatization strategy currently in the best interests of Phineas' shareholders?

X. Under what conditions should Phineas pursue privatization?

Citigroup observations

- Phineas business model is increasingly at risk of being marginalized
  - Primary market factors
  - Secondary market factors
- The business cannot exist without the benefits provided by the charter
  - Size, scale and leverage
  - Funding cost and access to capital markets
- A combination of these factors drive our view that the two "extreme" outcomes – stay the course and full privatization – are, in fact, not options
- Phineas is not a "growth company"; the core business should grow EPS at mid/high single digits

Company	Phineas	S&P 500[(a)]	Countrywide	American Express	Wells Fargo	SLM Corp
P/ 2006E	8.3x	15.8x	8.7x	15.2x	12.2x	17.2x
LT EPS Growth	10.0%	12.0%	12.0%	13.0%	11.0%	15.0%

- Phineas, however, can create significant value to shareholders by extending its business and returning to an outward rather than inward focus
- A tracking stock would allow segmentation of the investor base for the portfolio business
  - Investors find the company's result very opaque due to FAS 133
- What would be the "tipping point" for the charter to be value destructive?
  - There would need to be significant legislative changes for the charter to deteriorate in value (e.g., a significant level of the book of business, lower leverage or escalating mission costs)

Source: Powerdata and IBES estimates. Market data as of 7/11/05.
(a) S&P 500 data based on median of S&P composite companies.

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Citigroup recommendations on new business initiatives

- Diversification would decrease the dependence on volatile portfolio earnings, enhance earnings growth and play to Phineas' competitive strengths
- We have focused on initiatives which we believe are closely aligned with Phineas' customer base and capabilities
- These initiatives would allow Phineas to maximize the value of the charter and would result in a business serving the mortgage market (and the mission) more broadly
- We further believe that becoming a full service provider would have a positive impact on Phineas' employees

Stand-alone Scenario	Proposed new business initiatives
• Current share price of $59 is a 6% discount to sum-of-the-parts DCF value of $63	• Expand Guarantee business into non-traditional products (Alt-A, Sub-prime) → Incremental NPV/share: $5.72
• Analysts use forward P/E to value Phineas, which leads to wide range of estimates due to lack of transparency	• Asset management & risk analytics → Incremental NPV/share: $2.31
• A comparison of values with and without the charter results in a charter value of approximately $29 per share (50% of share price)	• Mortgage insurance → Incremental NPV/share: $3.07

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Framework for assessing Phineas' strategic alternatives

In assessing strategic alternatives to maximize long-term Phineas shareholder value, Citigroup considered the following on both a whole company and business line basis:

- Competitive advantages of Phineas
  - Charter advantages versus charter costs
  - Competitive advantages within and outside the mortgage industry
- Valuation and financial impact of proposed strategic alternatives
  - Actual economic returns vs required risk-adjusted returns
  - Valuation and financial impact (including and excluding charter)
- Long-term market opportunity
  - Phineas competitive positioning
  - Environmental trends
- Implications of strategic alternatives
  - Business line interrelationships
  - Customer relationships
  - Mortgage market

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Citigroup's observation of Phineas

- The "charter" is Phineas' core asset (accounting for up to 50% of current market capitalization), allowing for operating scale, access to capital markets and low cost financing that are unprecedented among financial services companies
- Mission costs however, continue to increase
- Market conditions are also evolving in ways that have reduced Phineas' ability to grow at historical rates and levels of profitability
- We have used several methodologies to value Phineas, which indicate that Phineas trades at a discount to its sum-of-the-parts valuation
- Given Phineas competitive advantages, we believe that achieving the broad goal of enhancing market liquidity for mortgages is consistent with enhancing shareholder value
- Distinctive competencies that Phineas can transfer beyond its current business and into new initiatives include:
  - Interest rate risk analytics (and associated brand)
  - Mortgage credit analysis
  - Capital markets expertise

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Citigroup's recommendations for Phineas

- Citigroup's recommendations to enhance Phineas shareholder value have been made under the following assumptions:
  - Current regulatory and charter constraints have been "assumed away"
  - Phineas must currently have, or be able to readily obtain, the required key competencies
  - Recommendations must be executable and meaningful to valuation and both net income and EPS growth
- **Recommendation #1**: Optimize value of portfolio business
  - Manage portfolio to optimize returns, not to achieve "earnings" growth
  - Isolate portfolio business via tracking stock structure to optimize investor interest
  - Reduce use of synthetic derivatives
- **Recommendation #2:** Consider three new business lines
  - Non-conforming residential mortgage guaranty / conduit sub-prime
  - Mortgage insurance
  - Asset management / risk analytics
- **Recommendation #3:** Consider comprehensive investor relations program
  - Re-introduce tutorial on "how Phineas makes money"
  - Focus on communicating a non-GAAP financial measure consistent with how the business is managed

The "dustbin"

Ideas	Reasons to dismiss
Full privatization	We valued the business with and without the charter: the resulting higher capital requirements and funding cost, and the necessary downsizing of the portfolio and guaranty businesses lead to a valuation difference, or implied value of the charter, of c. $29 per share
Full exit from portfolio business	A full exit from the portfolio business would lead to a multi-year run-off, in which the infrastructure needs to be maintained This strategy would only make sense if Phineas could replace lost earnings with higher earnings growth businesses consistent with core competencies and only if this did not compromise the single family business
Transform portfolio business into REIT	A REIT structure would require separate taxable and non-taxable subsidiaries for the portfolio and guarantee business, which would only be possible without the charter The portfolio business would need to be significantly downsized; tax savings would not exceed the impact of higher financing costs, lower leverage and a smaller portfolio
Transform into a depository (acquire retail deposits)	Acquiring an inexpensive funding source would require a significant investment in either long-term de novo branch building or acquisitions at high premiums Given the size of the portfolio assets, a dominant share of the U.S. deposit market would be required to have a meaningful impact on earnings Higher bank capital requirements (5%) would dilute ROE
Spin-off of multi-family business	Spinning-off the multi-family business would raise questions by the market given its small size and high core profitability compared to the overall business The multi-family business is "mission-rich"; a spin-off would simply lead to a transfer of mission costs to other business lines unless goals can be acquired at lower cost
Preemptive capital raising	Would erode Phineas' existing value per share as additional capital cannot be deployed above the cost of equity and would thus dilute ROE for existing shareholders

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Shifting mortgage industry landscape

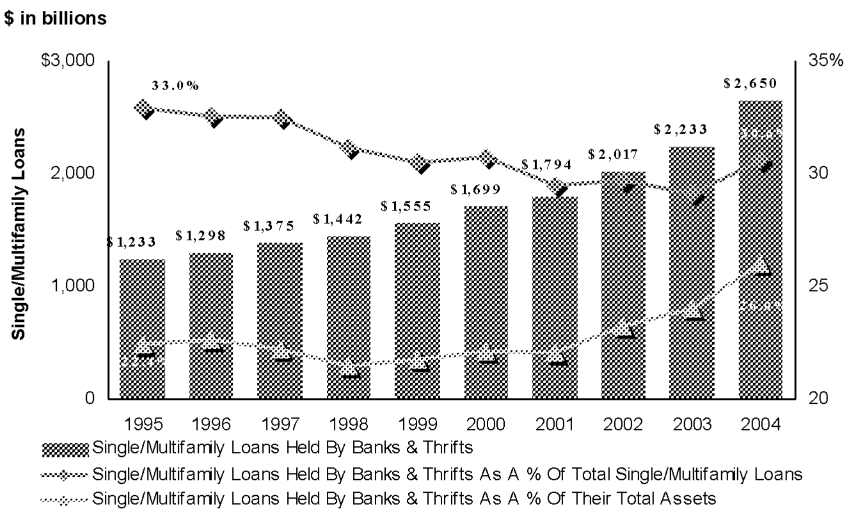
Cyclical ⟷ Structural

Issues	Type Of Trend	Impact On Phineas
Consolidation amongst top originators	Competitive	Larger competitors compete more aggressively for assets, have greater pricing power and ability to develop new products; increased vertical integration of Wall Street firms
Accelerated use of private label products	Secondary Market	Decrease in guaranty business as issuers pursue alternative executions
Decreased spreads on subordinated bonds	Secondary Market	Increases relative attractiveness of private label execution, driving business away from Phineas
Increased (hybrid) ARM origination	Primary Market	Lower share of originations sold to Phineas due to its lower market share in the ARM market versus fixed rate products
Increased sub-prime and Alt-A origination	Primary Market	Reduction in share of agency-eligible loans reduces Phineas' target market
Growth of affordability products (IO, Option ARMs)	Primary Market	Product innovation reduces Phineas' target market
Increased participation among both traditional and new investors including foreign central banks, REITs, CDOs and hedge funds	Competitive	Crowded competitive landscape seeking to acquire assets causes spread compression, thus limiting Phineas' opportunities
Impact of Basel II implementation	Regulatory	Retaining mortgages will become a more attractive opportunity for depositories
Competition from Freddie Mac	Competitive	Freddie Mac's focus on regaining market share from Phineas could result in a permanent loss of market share
Fall in the rate of conforming mortgage originations	Primary Market	Agency eligibility by loan size limits growth
Potentially slowing home price appreciation	Macro-economic	Slowing home price appreciation may impede growth
Growing homeownership rates	Macro-economic	Increased mortgage debt creates increased market opportunity; increased volume for guaranty business may be partially offset by use of non-conforming products

Depository institutions will likely increase holdings of mortgage assets

- Depositories have increased mortgage holdings relative to total assets every year since 1998, bringing their market share to its highest level since 2000
- Basel II is likely to accelerate this trend as capital requirements against mortgages held are set to decrease beginning in 2008

Presence of depositories in mortgage



Implications of Basel II

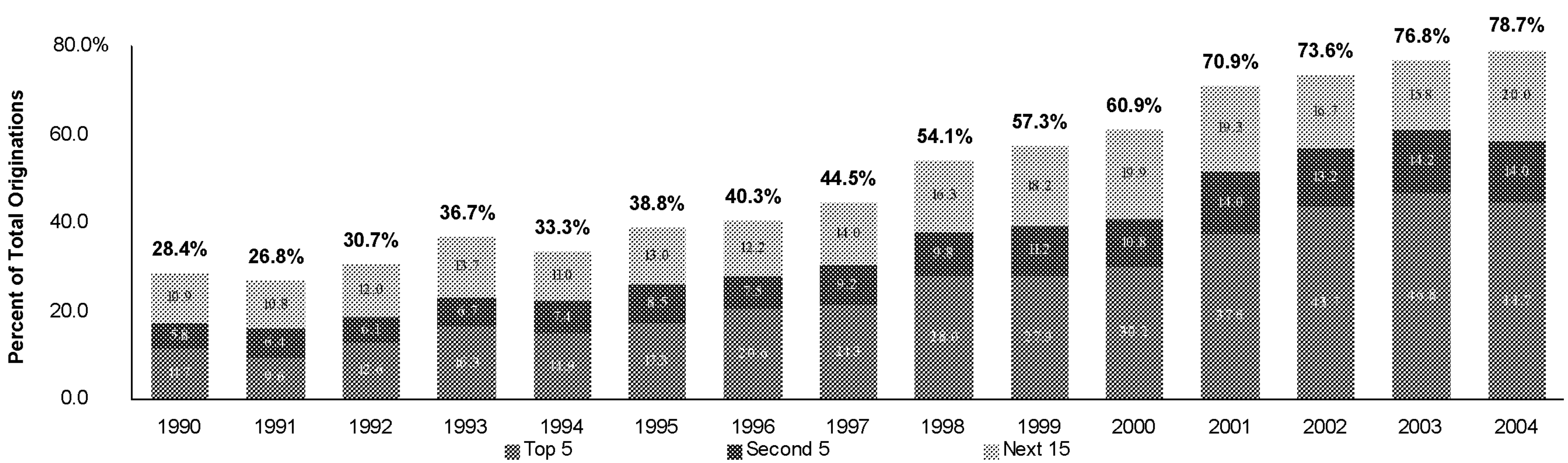
- Relative to the current standard approach, risk weightings for mortgages on residential property will decrease from 50% to 35%
- The 10 largest U.S. banks are likely to be required to use the advanced internal ratings (“A-IRB”) approach, with the next 10 largest banks likely to adopt such approach voluntarily (the remaining U.S. banks are expected to continue to use the standard approach)
    - Capital required to be held against mortgages will likely decrease for the banks adopting A-IRB
    - These 20 banks may then have additional incentives to retain mortgages in their own portfolios rather than sell them to Phineas
    - These banks may also have greater incentives to compete with the GSEs in purchasing mortgages from other originators

Source: Federal Reserve Board.

Primary market consolidation increases pricing pressure on G-fees and portfolio assets

- The drive to capitalize on economies of scale and scope have led to rapid consolidation within the mortgage industry over the past 10 years
  - The consolidation of top originators has created competitive pressures as larger, more efficient originators are able to price mortgage loans and securities more aggressively in the secondary market

The top originators continue to capture market share

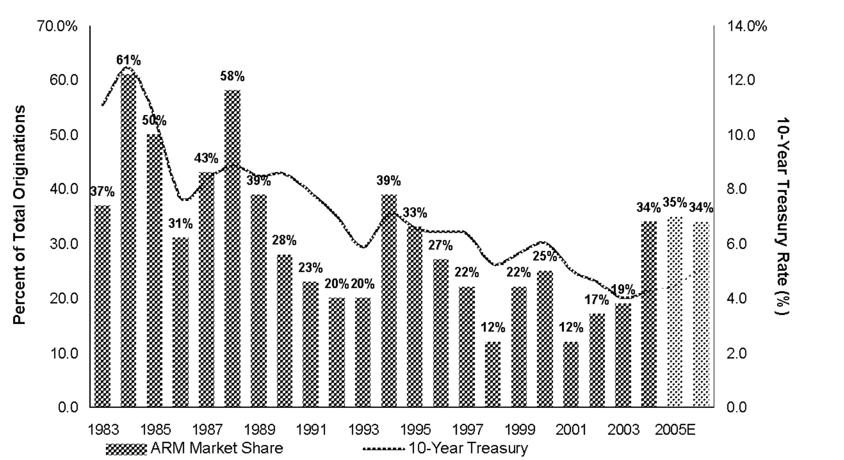


Source: Inside MBS & ABS.

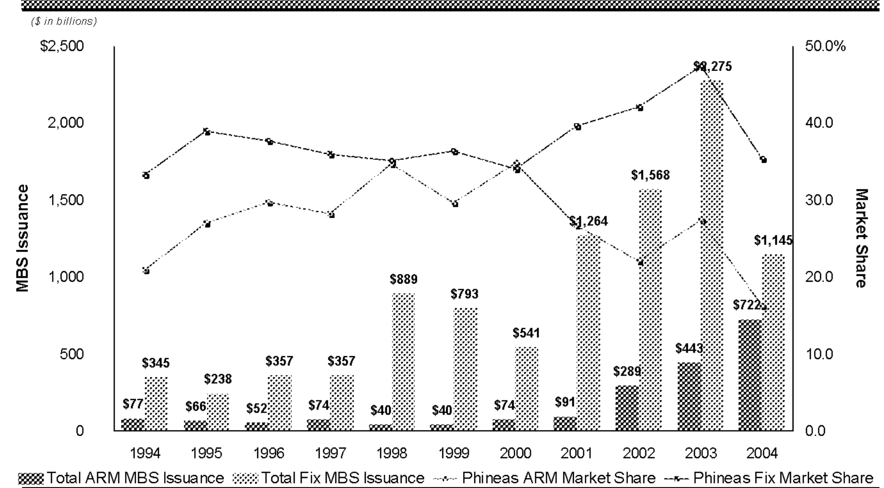
Phineas' market share has declined as ARM origination volume has accelerated

- The share of mortgage originations comprised of adjustable rate mortgages ("ARMs") is generally tied to both absolute and relative levels of interest rates
- Other factors have also led to increased ARM originations:
  - Increased popularity of hybrid ARMs
  - Growth of the sub-prime market, of which approximately 70% of originations are ARMs
- Phineas has historically captured a smaller share of the ARM market compared to the fixed market
- The popularity of hybrid ARMs may signal a structural change in the fixed-rate versus ARM composition of mortgage originations

Adjustable rate mortgage originations



Phineas ARM market share



Source: Inside MBS & ABS and Mortgage Bankers Association.

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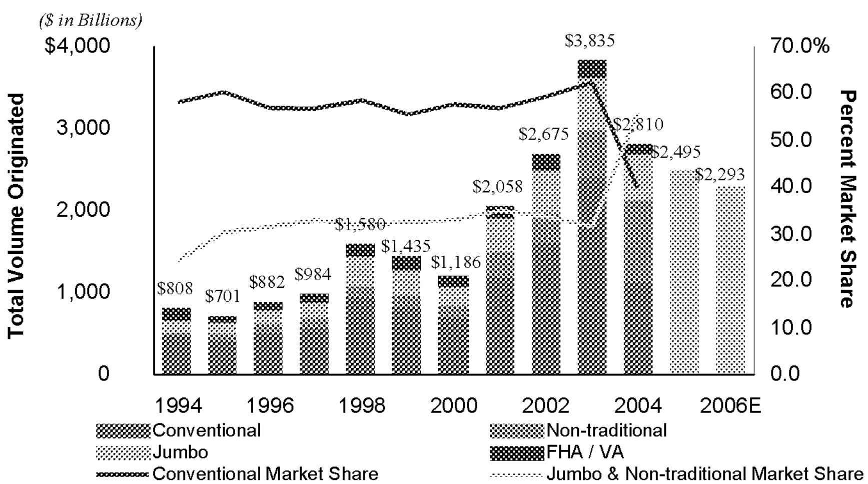
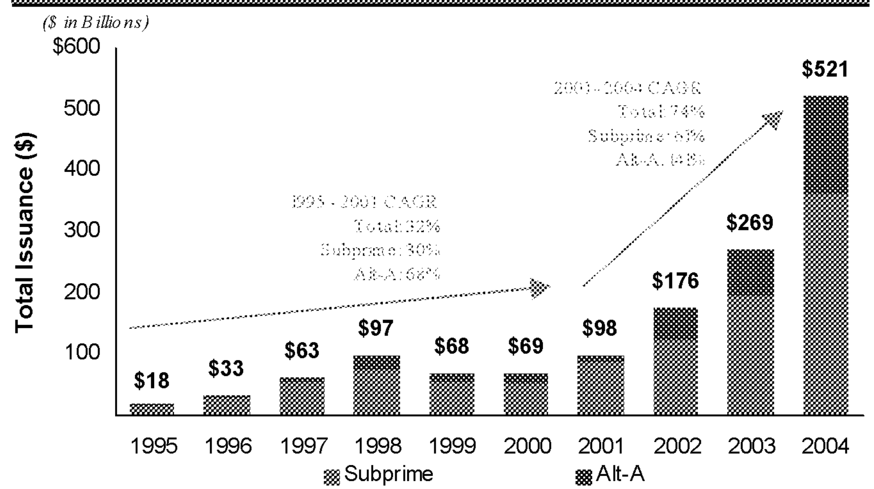
A shift toward non-traditional products diminishes Phineas' competitive advantages

- The rapid increase in home prices, combined with increased competitive pressures, has led originators to offer "affordability" products such as interest only ARMs
- The decline in refinancing activity in the prime market has left lenders with excess capacity, and combined with the favorable credit cycle, has spurred activity in non-prime markets such as Alt-A and sub-prime
- The increase in the conforming loan limit, which is based on national home price increases, has not kept pace with the growth of home prices in high volume states, such as California.

Originations by product type



Alt A & Sub-Prime issuance



Source: Inside MBS & ABS and Mortgage Bankers Association.
(a) Nontraditional originations include Alt-A and sub-prime originations.

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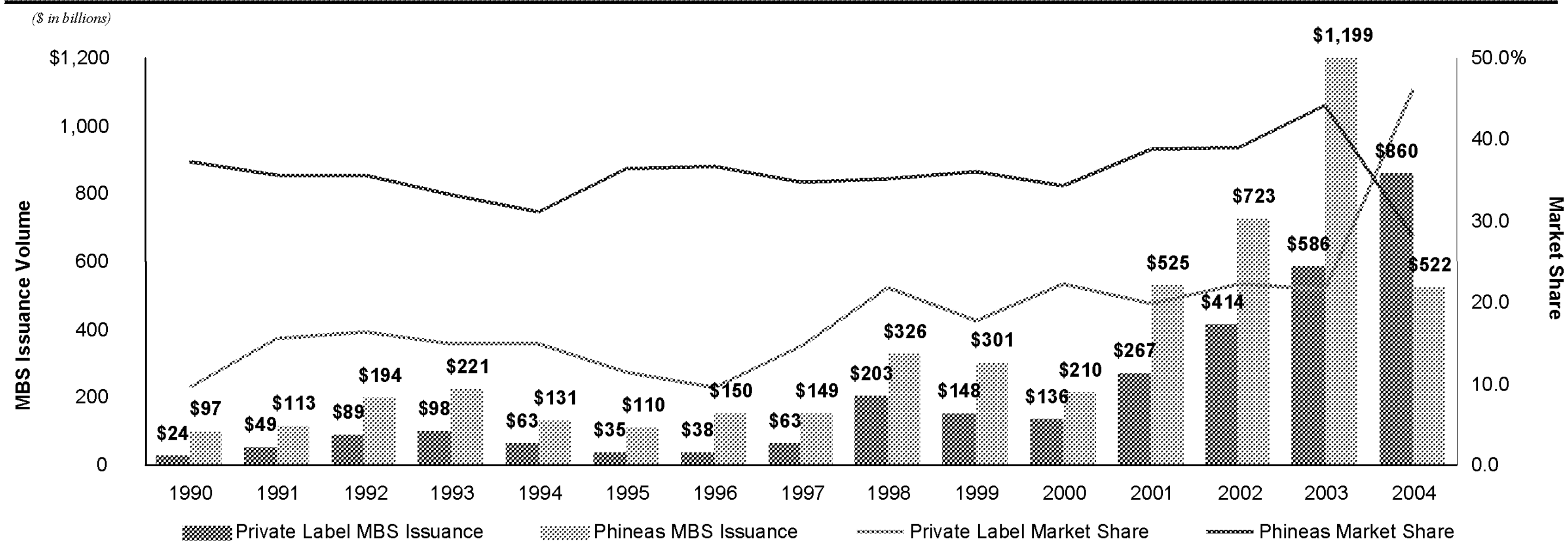
Private label market share surpassed Phineas in 2004

- Economies of scale created through originator consolidation have increased opportunities for securitization in the private label market, which had not previously been economically viable due to the fixed costs associated with securitization
- In addition, due to Phineas' limited presence in the sub-prime and Alt-A sectors, and reduced role in the ARM market, originators have gravitated towards selling or securitizing via the private label markets

MBS issuance



 Source: Inside MBS & ABS.

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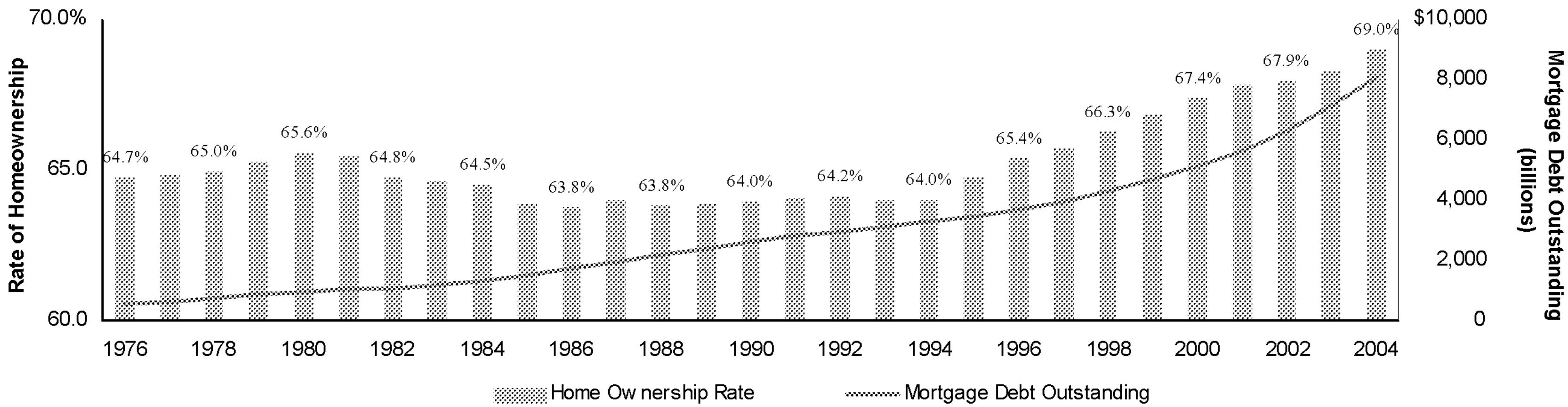
Increasing home ownership rates have a positive impact on Phineas

- After remaining relatively stable from 1976 to 1994, the rate of homeownership in the United States has grown steadily
  - Lower mortgage rates and strong economic growth have increased homeownership
  - The evolution of the sub-prime and Alt-A markets have contributed to increased homeownership opportunities for those who do not qualify for conventional loans. Loan originations by non-traditional lenders grew by approximately 31% annually between 1994 and 2004, compared to 14% annually for all originations

Rate of homeownership



Source: U.S. Census Bureau and Federal Reserve Board.

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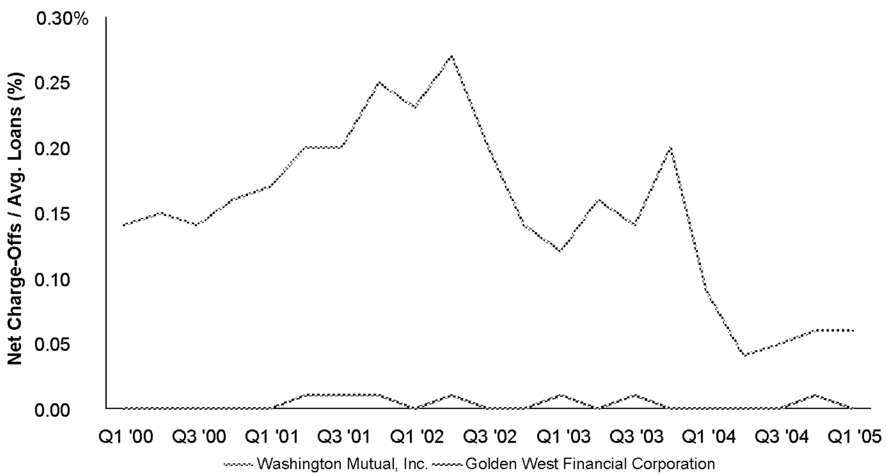
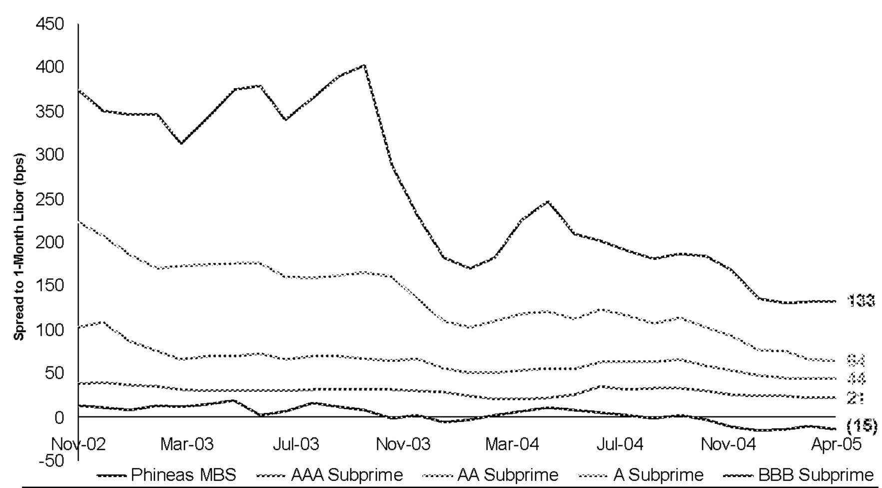
Mortgage credit performance has varying implications for Phineas' business lines

- Home price appreciation and the resultant equity build-up have mitigated credit losses
- There has been a rapid onset of affordability products, however, many of which contain layered risks
  - Credit performance of these loans are expected to be worse than traditional loans due to new loan features which may reduce borrowers' ability to meet monthly payments (interest only and ARM reset dates) and loans which have reduced the amount of equity in borrowers' homes (higher LTV, second liens)
- Reduced perceived risk, limited yield opportunities, and new pools of capital (i.e. REITs and hedge funds) have increased demand for subordinated securities and driven a dramatic reduction in spreads which has increased the relative attractiveness of private label execution
- On the contrary an adverse credit event may provide more business opportunities for Phineas if investors become less risk tolerant

Net charge-offs of mortgage thrifts



MBS spreads



 Source: Citigroup Research and SNL Datasource.

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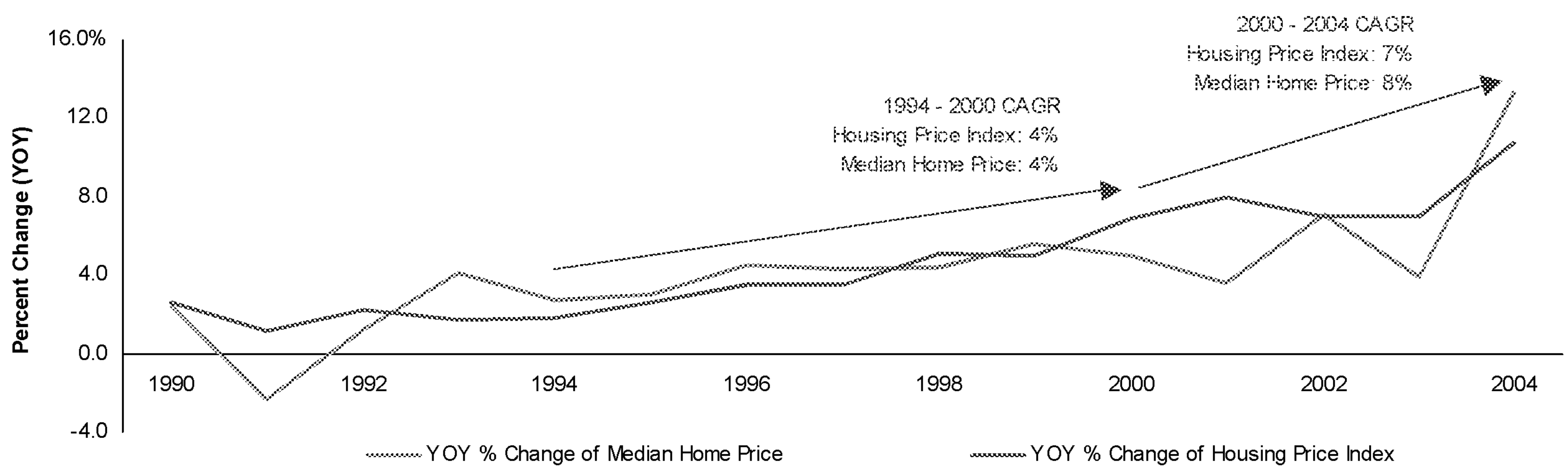
A reduction in home price appreciation may slow Phineas' growth

- Strong home price appreciation combined with record low interest rates has fueled robust growth in the housing market over the past two years
- Growth in home prices has led to a change in consumer behavior as borrowers have extracted excess equity via home equity products
- Home price appreciation is a major factor in the extremely low credit costs in the mortgage sector
- A reduction in home price appreciation would increase frequency and severity of losses

Home price appreciation



Source: U.S. Census Bureau and OFHEO.

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Lifecycle dynamics of monoline lenders

Unique skills drive dramatic market share gains and…

…outsized financial returns which result in high equity market valuations

Larger-cap, higher-rated competitors aggressively play defense…

…which compresses both financial returns and valuations…

…creating pressure to pursue revenue / earnings diversification and assess longer-term strategic options

Historical stress factors	Casualties	Impact of charter
Funding / liquidity	Household, Finova, Associates	Insulates Phineas
Disintermediation / growth	First USA, CIT	Hinders Phineas
Lack of diversification	MBNA	Hinders Phineas

Shrinking universe of monoline lenders

1990 and prior

~~Option One~~
Countrywide
~~Providian~~
~~Household~~
~~Beneficial~~
CIT
Phineas
Sallie Mae
Freddie Mac
~~Money Store~~
~~First USA~~
~~North American Mortgage~~
~~Margaretten~~
~~Arbor National~~

~~MBNA~~
Ameriquest

1993

~~First Merchants~~
~~Finova~~
Capital One
Redwood Trust

1996

Metris
New Century
~~Associates First Capital~~
Delta Financial
~~First Alliance~~

1999

~~Heller Financial~~
~~Southern Pacific~~
Annaly Mortgage

2002

CapitalSource

2005

KKR Financial
Apollo Investments

23

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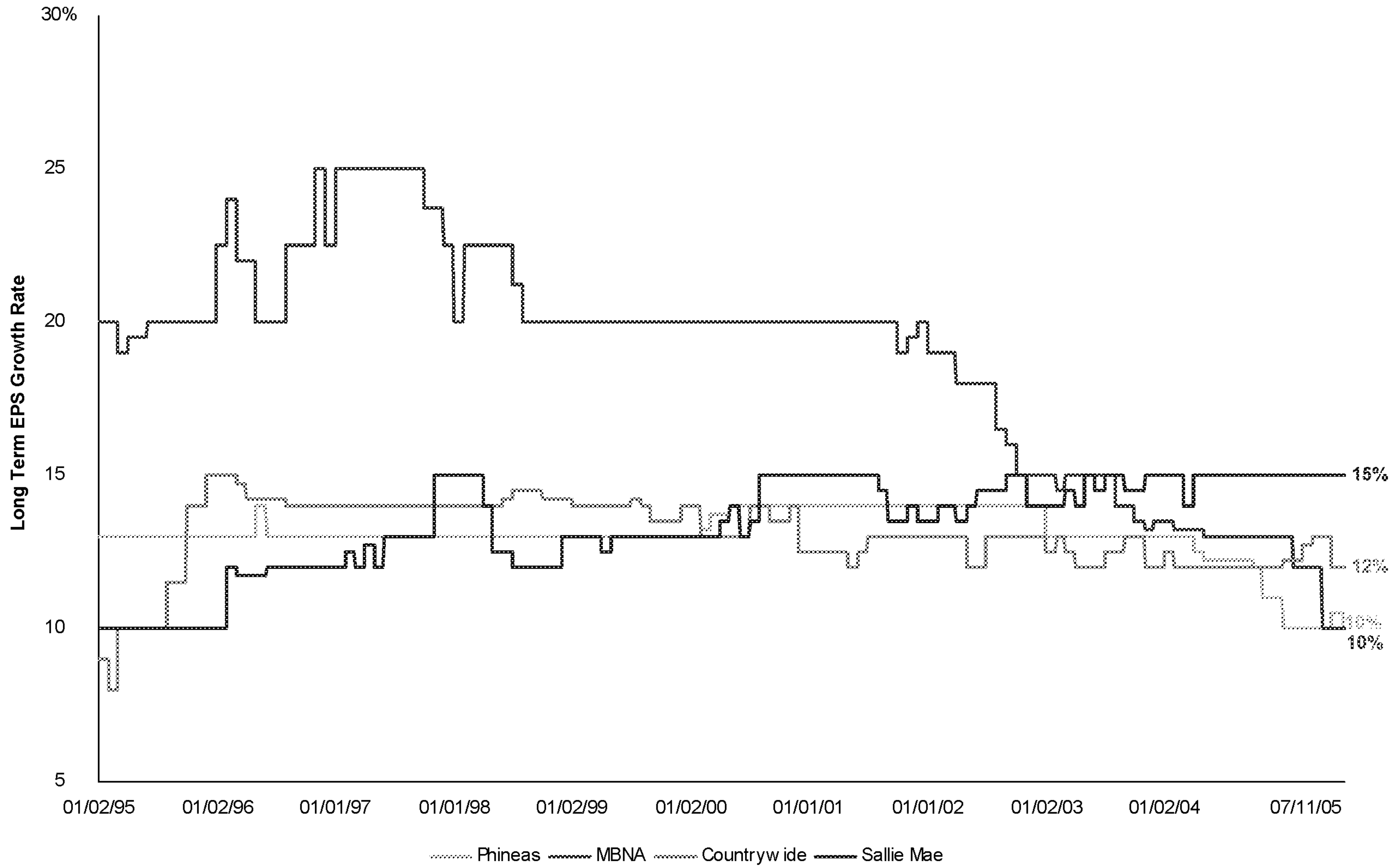
EPS growth rates have generally trended downward for large cap financials



Note: Market data as of 07/11/2005.
Source: Powerdata.

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Competitive positioning of monolines

Top 10 mortgage originators

1994 Company	1994 Market Share	2004 Company	2004 Market Share
Countrywide	4.2%	Countrywide	12.9%
Norwest	3.2	Wells Fargo	10.6
Prudential	3.1	Washington Mutual	9.1
Chase Manhattan	2.3	JP Morgan Chase	7.0
Chemical Residential	2.1	Bank of America	5.1
Fleet Mortgage	1.8	Citigroup	3.7
GE Capital	1.6	GMAC	3.1
GMAC	1.4	Ameriquest	2.9
Bank of America	1.3	National City	2.3
North American Mortgage	1.3	ABN AMRO	2.0
	22.3%		58.7%

Source: The 2005 Mortgage Market Statistical Annual.

Top 10 branch based consumer finance companies

1996 Company	1996 Market Share	2004 Company	2004 Market Share
Household	35.1%	HSBC	43.1%
Associates First Capital	27.0	Citigroup	37.7
Beneficial	13.9	Wells Fargo	12.0
Commercial Credit	6.7	AIG	7.2
Avco	5.5		
Norwest Finance	4.5		
Transamerica Finance	3.5		
American General Finance	2.1		
Aristar	1.7		
	100.0%		100.0%

NB: Market share based on sum of top 9 or 4 consumer finance receivables.

Top 10 credit card issuers

1994 Company	1994 Market Share	2004 (a) Company	2004 (a) Market Share
Citigroup	17.4%	Bank of America	25.3%
MBNA America	7.8	JP Morgan Chase	23.8
AT&T Universal	5.5	Citigroup	20.5
First Chicago	5.4	Capital One	9.4
First USA	4.9	HSBC Bank	4.0
Household Bank	4.8	Washington Mutual	3.3
Chase Manhattan	4.6	Wells Fargo	2.4
Chemical Bank	4.0	U.S. Bancorp	1.9
Bank of America	3.6	USAA Federal Savings	1.3
Signet Bank	3.4		
	61.4%		66.4%

Based on volume outstanding of top 50 bank credit card issuers.
(a) Pro forma for recent mergers.

Top mortgage insurers

1994 Company	1994 Market Share	2004 Company	2004 Market Share
GE Capital	27.6%	Mortgage Guaranty Insurance	23.2%
Mortgage Guaranty Insurance	25.7	PMI Mortgage Insurance	18.7
PMI Mortgage Insurance	13.8	Radian Guaranty	15.9
AIG	13.3	AIG	13.5
Republic Mortgage Insurance	8.7	Genworth Financial	13.5
Commonwealth	7.8	Republic Mortgage Insurance	10.3
Amerin Guaranty	1.9	Triad Guaranty Insurance	4.8
Triad Guaranty Insurance	1.2		
	100.0%		100.0%

Source: The 2005 Mortgage Market Statistical Annual.
Note: Market share based on sum of top 7 or 8 mortgage insurers insurers in 1994 and 2004 respectively.

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Equity Market Considerations

Comparative market statistics

Institution/Sector	7/11/2005 Agg Mkt Cap	Forward 2006 P/E	Price / Book Value[(a)]	2006E PEG Ratio	Current Divd. Yield [(b)]
Phineas	$57,164	8.3x	2.2x	83%	1.8%
Freddie Mac	45,529	9.4	1.7	99	1.8
Mortgage Banks	27,130	8.8	2.1	66	2.4
Depositories w/ Mortgage Platforms	322,412	11.1	1.8	112	3.5
Multi-Family Banks	8,012	11.9	1.5	119	11.1
Thrifts	56,118	11.3	2.2	101	2.4
Financial Guarantors	17,903	10.1	1.3	79	0.7
Mortgage Insurers	14,003	8.6	1.2	71	0.5
Residential MBS REITs	4,920	8.3	1.0	199	11.0
Commercial MBS REITs	2,483	9.9	1.7	158	8.3

Source: IDD, SNL Datasource.
Mortgage Banks: Countrywide Financial Corp. (CFC), PHH Corp. (PHH), Indymac Bancorp Inc. (NDE); Depositories w/ Mortgage Platform: Wells Fargo & Co. (WFC), Bank of America Corp. (BAC), National City Corp. (NCC), North Fork Bancorporation (NFB); Multi-Family Banks: New York Community Bancorp Inc. (NYB), Independence Community Bank Corp. (ICBC);
Thrifts: Golden West Financial Corp. (GDW), Washington Mutual Inc. (WM); RMBS REITs: Redwood Trust Inc. (RWT), Annaly Mortgage Mgmt Inc. (NLY), Anworth Mtg Asset Corp. (ANH), Luminent Mortgage Capital (LUM), MFA Mortgage Investments (MFA); CMBS REITs: Newcastle Investment Corp. (NCT), Anthracite Capital Inc. (AHR), Capital Trust (CT);
Financial Gurantors: MBIA Inc. (MBI), Ambac Financial Group (ABK), Assured Guaranty Ltd (AGO); Mortgage Insurers: MGIC Investment Corp. (MTG), Radian Group Inc. (RDN), PMI Group Inc. (PMI)
(a) Book Value as on December 31, 2004. Phineas book value equals $35.5 billion total equity less $9.108 billion in preferred shares, per Phineas management.
(b) Last quarter annualized.

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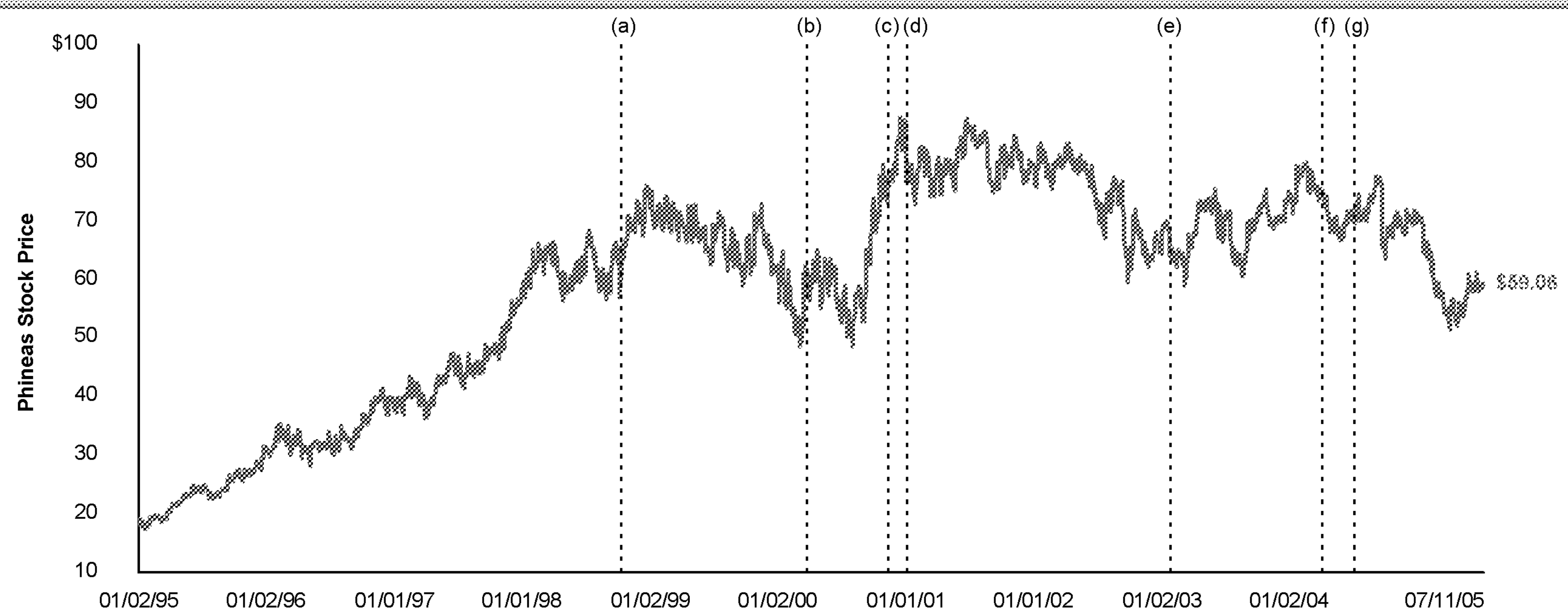
Historical stock price performance versus portfolio and EPS growth



(a) 10/09/1998: Freddie Mac's mortgage insurance proposal fails.
(b) 03/22/2000: Gary Gensler addresses role of GSEs and their increasing potential risk to the capital markets.
(c) 11/08/2000: George W. Bush elected President.
(d) 1/03/2001: First in a series of 13 rate decreases by the Federal Reserve Board.
(e) 1/23/2003: Freddie Mac announces it will revise earnings for at least the previous two years.
(f) 3/30/2004: Regulators announce that Phineas may have to correct published financial statements as a result of the government accounting review.
(g) 6/30/2004: First in a series of 9 rate increases by the Federal Reserve Board.

	1998				1999				2000				2001				2002				2003				2004				2005	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EPS Growth (%)	16	16	12	12	13	14	14	16	16	12	16	14	7	33	9	70	7	6	(18)	(51)	65	(24)	158	135	(2)	1	NA	NA	NA	NA
Core Earnings Growth (%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	18	21	22	25	23	22	22	19	24	20	13	7	10	3	NA	NA	NA	NA
Portfolio Growth (%)	NA	NA	NA	NA	35	36	34	26	22	16	13	16	19	21	20	16	15	12	9	12	42	26	15	18	8	9	(1)	1	(2)	(7)

Source: Company reports and Powerdata.
Note: Growth rates represent year-over-year quarterly growth. 2Q 2005 Portfolio growth from May 2005 company update. Earnings data are prior to restatement. Phineas adopted FAS 133 on Jan 1, 2001.

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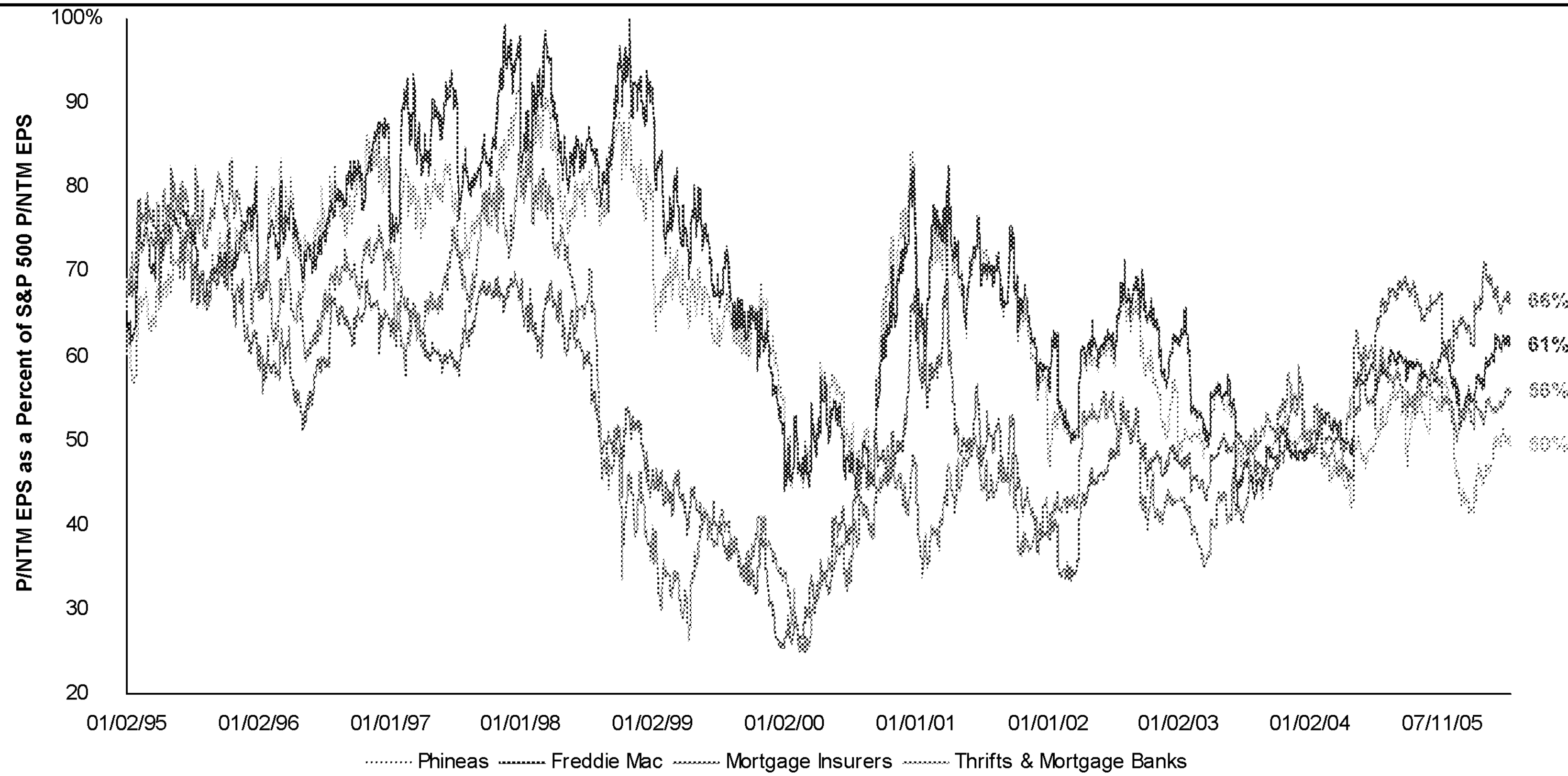
Historical price / NTM earnings relative to the S&P 500

	High	Median	Low	Current
Phineas	21.0x	12.5x	6.9x	8.1x
Freddie Mac	24.1	12.6	7.6	10.0
Thrifts & Mortgage Banks	15.6	10.3	6.6	10.8
Mortgage Insurers	18.4	9.9	5.9	9.1
S&P 500	28.1	18.8	12.6	16.3

Phineas as a Percent of:	High	Median	Low	Current
Freddie Mac	112%	96%	75%	81%
Thrifts & Mortgage Banks	226	124	63	75
Mortgage Insurers	244	118	76	89
S&P 500	92	66	41	50



Source: Powerdata and IBES estimates.
N.B. Thrifts and Mortgage Banks include Countrywide Financial Corp. (CFC), Golden West Financial (GDW) and Washington Mutual Inc. (WM). Mortgage Insurers include MGIC Investment Corp. (MTG), Radian Group Inc. (RDN) and PMI Group Inc. (PMI). Market data as of 7/11/2005.

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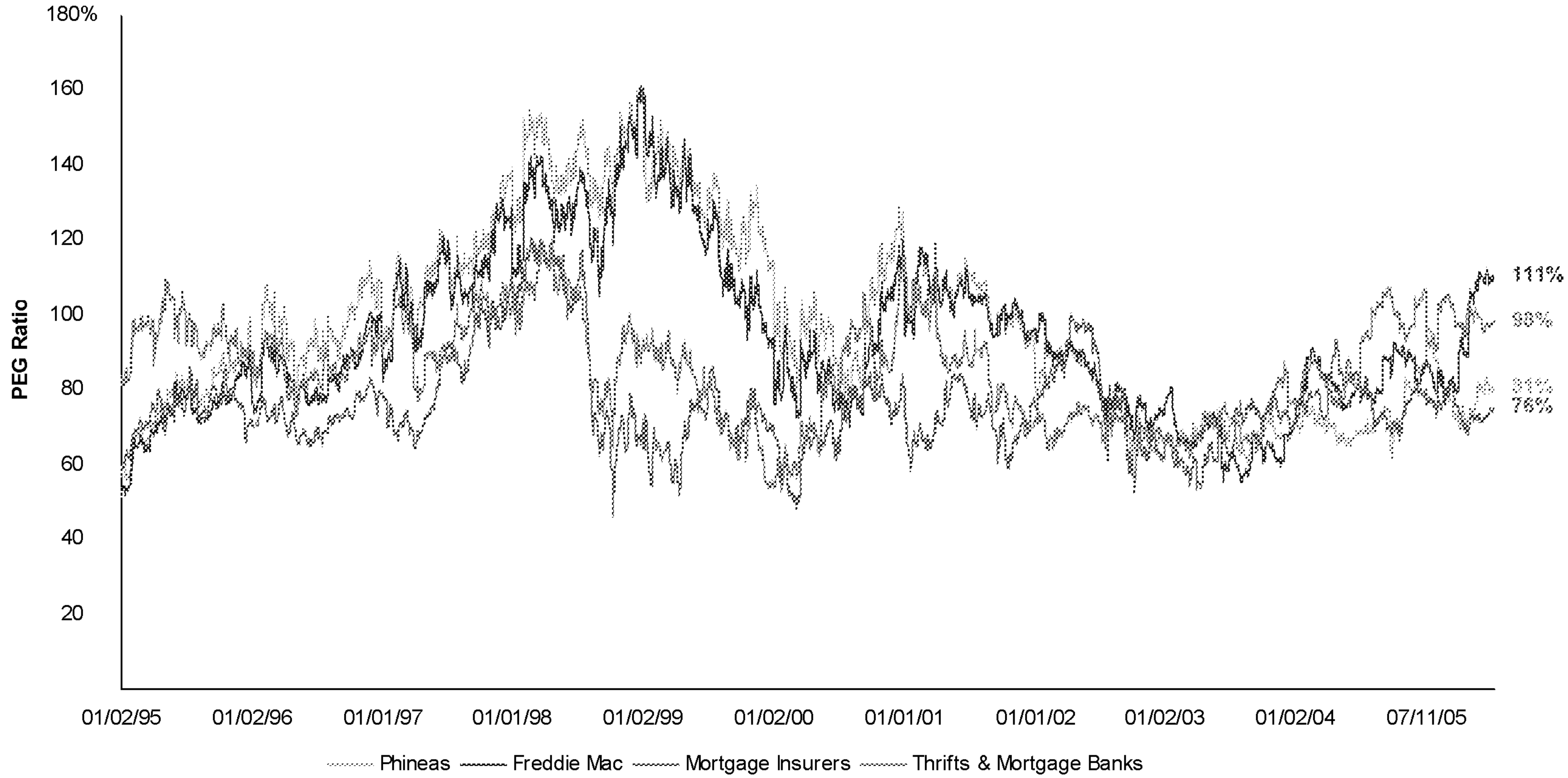
Historical PEG ratio

	High	Median	Low	Current
Phineas	161%	93%	56%	81%
Freddie Mac	161	89	51	111
Thrifts & Mortgage Banks	120	87	53	98
Mortgage Insurers	121	74	46	76

Phineas as a Percent of:	High	Median	Low	Current
Freddie Mac	127%	104%	70%	73%
Thrifts & Mortgage Banks	218	112	59	82
Mortgage Insurers	269	124	71	107



Source: Powerdata and IBES estimates.
N.B. Thrifts and Mortgage Banks include Countrywide Financial Corp. (CFC), Golden West Financial (GDW) and Washington Mutual Inc. (WM). Mortgage Insurers include MGIC Investment Corp. (MTG), Radian Group Inc. (RDN) and PMI Group Inc. (PMI). Market data as of 7/11/2005.

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Total returns to shareholders analysis

Total Return Analysis

	Actual Return	Annual Total Return since:			
	Since 1/1/2005	1/1/2004	1/1/2002	1/1/2000	1/1/1995
Phineas	(15.0%)	(11.9%)	(5.7%)	1.6%	14.4%
GSEs					
Freddie Mac	(6.9)	10.6	2.4	7.9	17.4
Thrifts					
Golden West Financial Corporation	10.0	19.9	26.5	30.9	26.1
Washington Mutual, Inc.	1.5	6.6	9.6	21.4	20.6
Mortgage Banks					
Countrywide Financial Corporation	11.7	36.9	48.1	40.1	26.8
Mortgage Insurers					
MGIC Investment Corporation	(4.9)	10.5	1.8	3.7	13.4
Radian Group Inc.	(9.2)	(0.7)	3.3	15.2	18.9
PMI Group, Inc.	(5.5)	3.9	4.3	10.2	12.0
Market Indices					
S&P 500	2.6	7.0	1.4	(2.6)	10.1
S&P Financial Services Index	(3.8)	4.4	3.8	5.1	14.1

Source: Powerdata, Bloomberg and WinEZ. Market data as of July 11, 2005.
Total return calculated as total dividends reinvested plus stock price appreciation.

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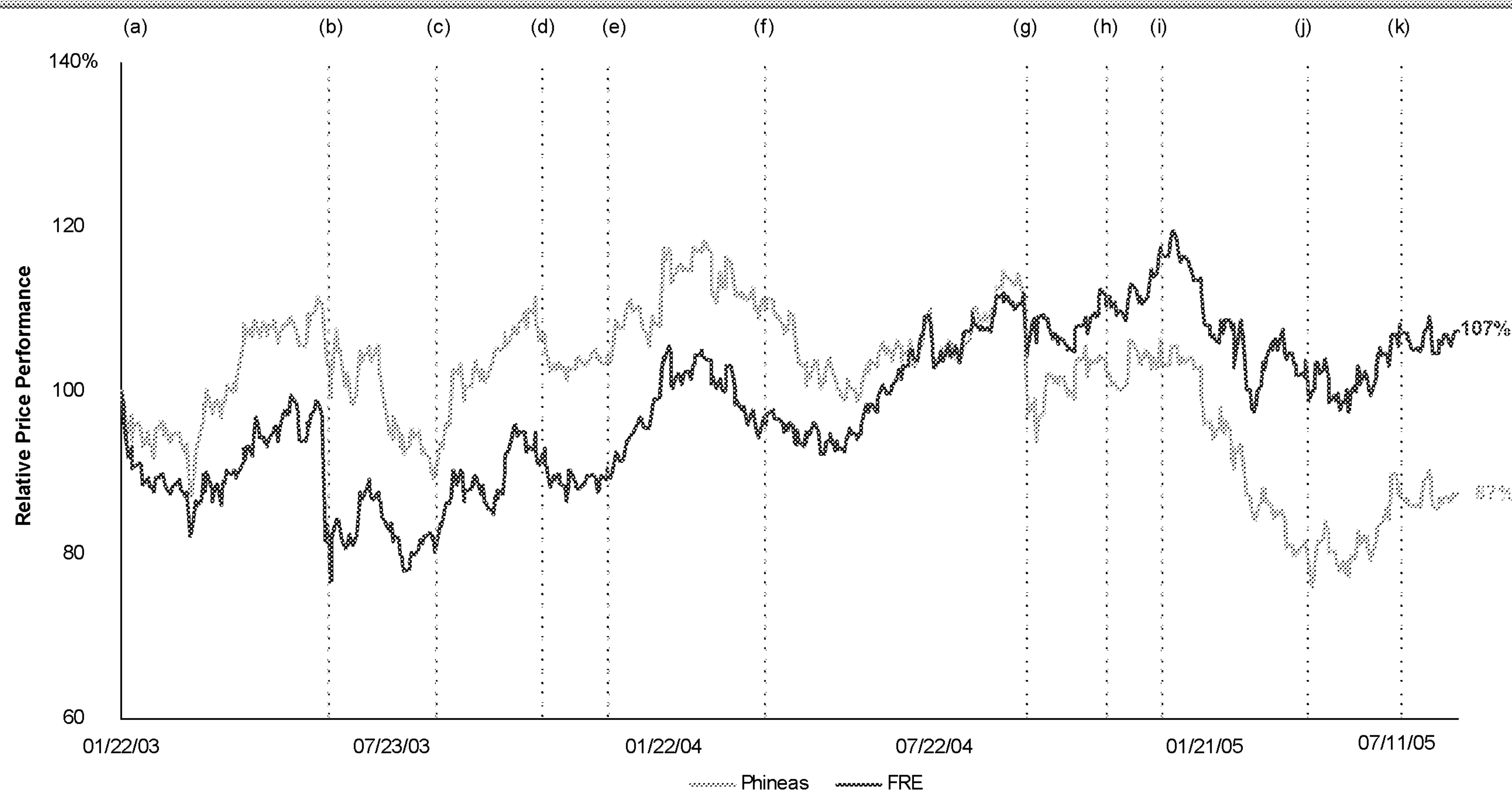
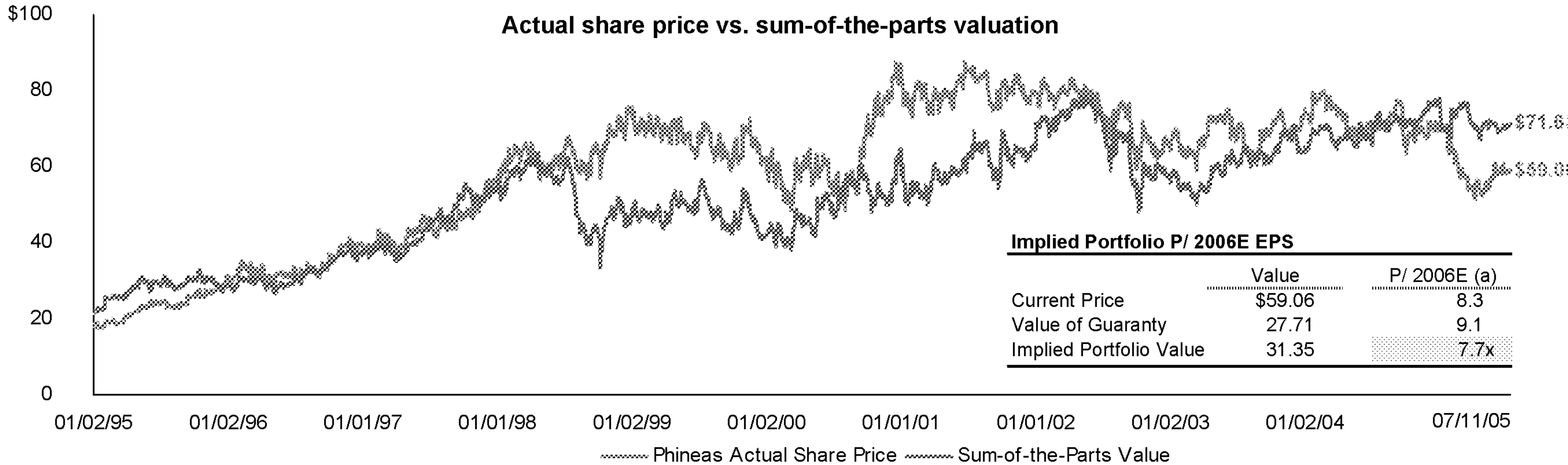
Does Freddie Mac provide a roadmap to recovery?



(a) 1/23/2003: Freddie Mac announces it will revise earnings for at least the previous two years.
(b) 6/10/2003: Freddie Mac fires 3 top executives amid allegations of failure to cooperate with investigations into accounting practices. Gregory Parseghian named as new CEO.
(c) 8/22/2003: Federal regulators order Freddie Mac's board to remove Gregory Parseghian from position as CEO due to his involvement in improper accounting practices.
(d) 11/21/2003: Freddie Mac reports corrected financial statements for the previous three years but announces that it is still unable to provide timely earnings reports and will not provide financials until mid-2004.
(e) 12/8/2003: Freddie Mac names Richard Syron as new CEO.
(f) 3/30/2004: Regulators announce that Phineas may have to correct published financial statements as a result of the government accounting review.
(g) 9/22/2004: Government regulators report that Phineas used improper accounting methods that raise questions about financial report and management quality.
(h) 11/15/2004: Phineas announces that it cannot meet deadline to file 10-Q and may be required to record $9 billion of previously unreported losses.
(i) 12/22/2004: Phineas' board replaces CEO Franklin Raines and CFO Timothy Howard amid accounting scandal.
(j) 3/31/2005: Freddie Mac announces 2004 results bringing its financial reporting current
(k) 6/2/2005: Phineas names Dan Mudd as new CEO.

Source: Powerdata and IBES estimates. Market data as of 7/11/2005.

Historical sum-of-the-parts valuation based on reported business line earnings contribution

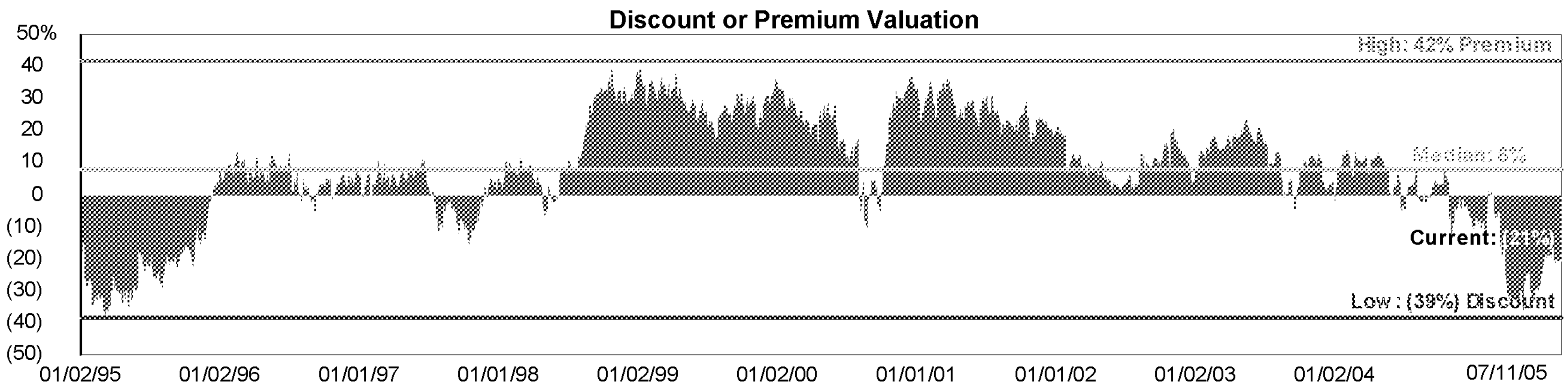


Implied Portfolio P/ 2006E EPS

	Value	P/ 2006E (a)
Current Price	$59.06	8.3
Value of Guaranty	27.71	9.1
Implied Portfolio Value	31.35	7.7x

Business Line Pre-Tax Core Earnings Contribution

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005E
Guaranty	36%	37%	37%	43%	38%	37%	30%	31%	38%	43%	43%
Portfolio	64	63	63	57	62	63	70	69	62	57	57



Source: Powerdata, SNL Datasource, IBES estimates, Bloomberg and company filings. Market data as of 07/11/2005.
Note: Business line earnings provided by management. Historical sum-of-the-parts valuation performed by calculating Phineas' quarterly earnings for the past 10 years, applying the respective business line contribution to determine income from guaranty and portfolio businesses and applying the historical price to forward multiple of respective peers to determine the value of each part.
(a) Based on 2006Q1 annualized earnings estimate.

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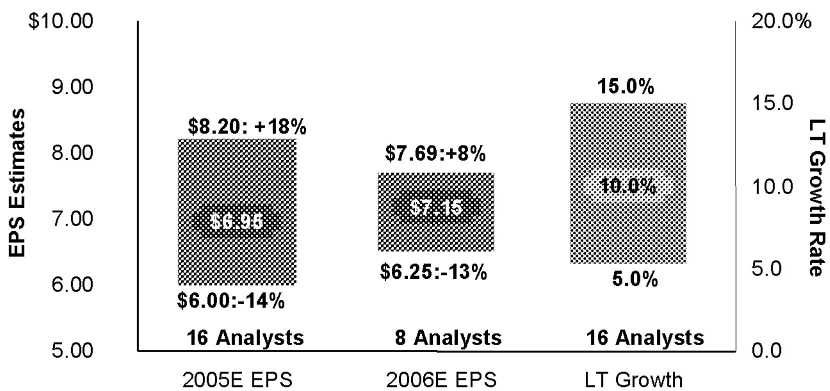
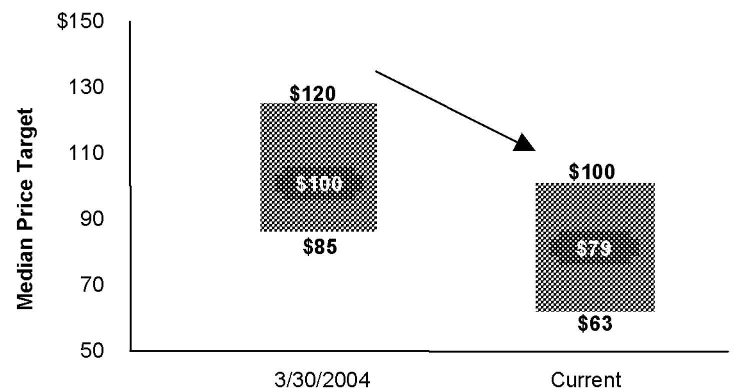
Equity research analysts' perspectives on Phineas

Earnings estimate / EPS growth rate

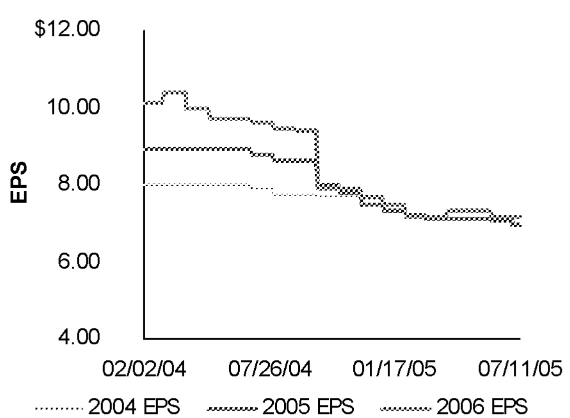


Source: IBES estimates and Bloomberg.
Note: Numbers in columns denote median values.

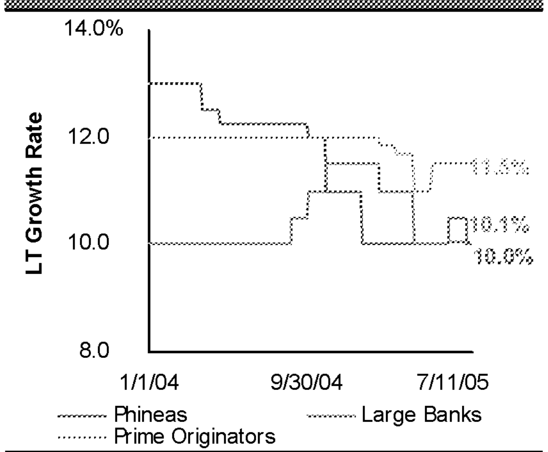
Sell-side analyst price targets



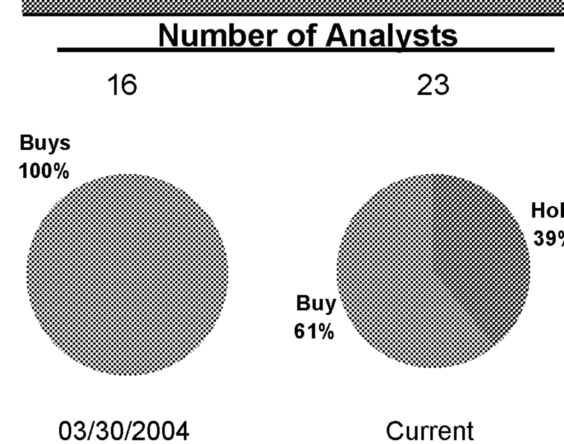
EPS median progression



Long term EPS growth rate (a)



Analyst recommendations



 Source: Powerdata, IBES and Bloomberg. Note: Market data as of 7/11/2005.
Large Banks includes Bank of America Corp. (BAC), Citigroup Inc. (C), and JPMorgan Chase & Co. (JPM). Prime Originators includes Washington Mutual Inc. (WM), Wells Fargo & Co. (WFC) and Countrywide Financial Corp. (CFC).

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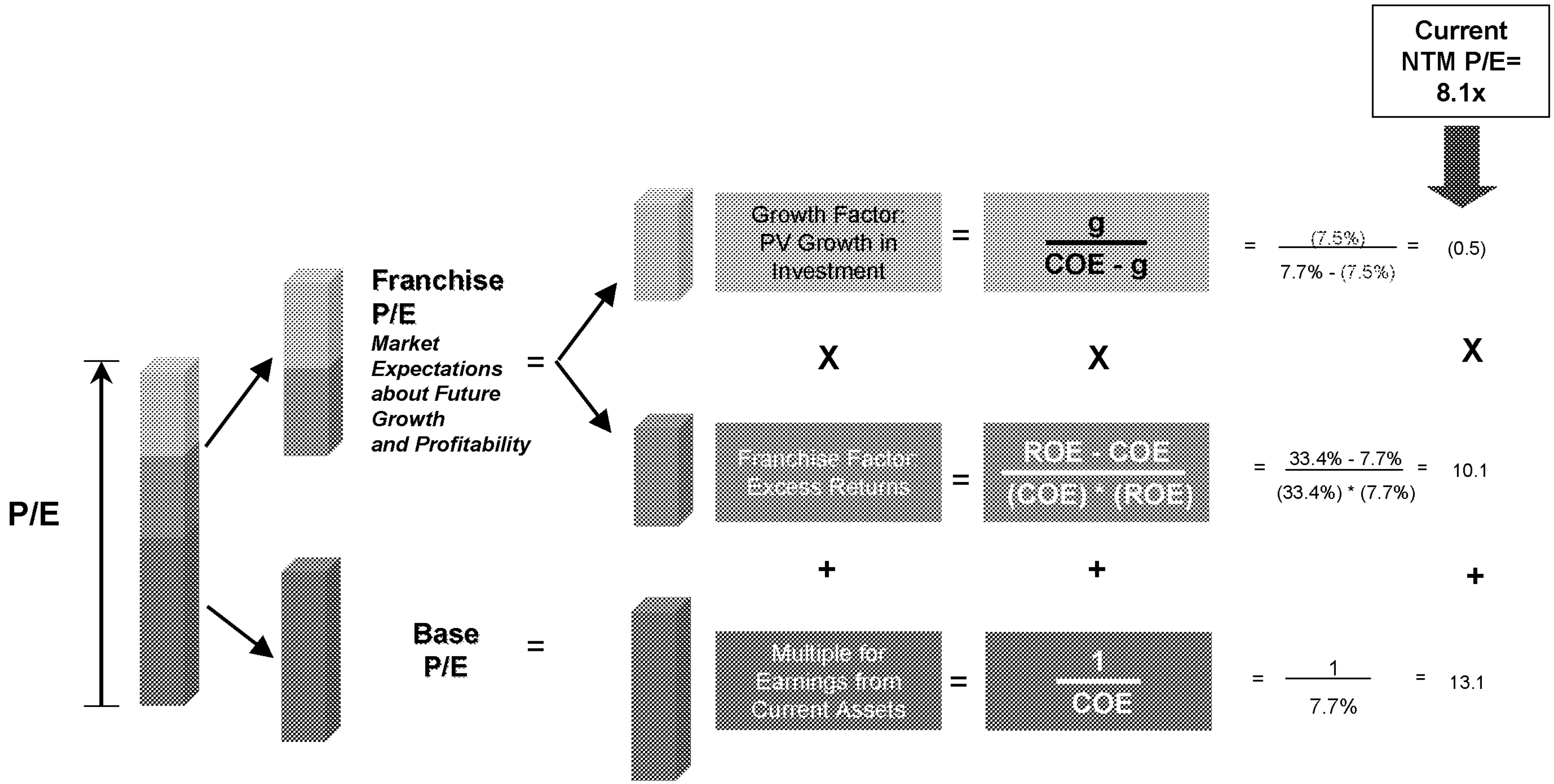
Decomposition of Phineas' P/E valuation multiples

- While growth expectations and returns are important drivers of valuation multiples, the cost of capital is also critical



Note: g: Growth rate
COE: Cost of equity
ROE: Return on equity

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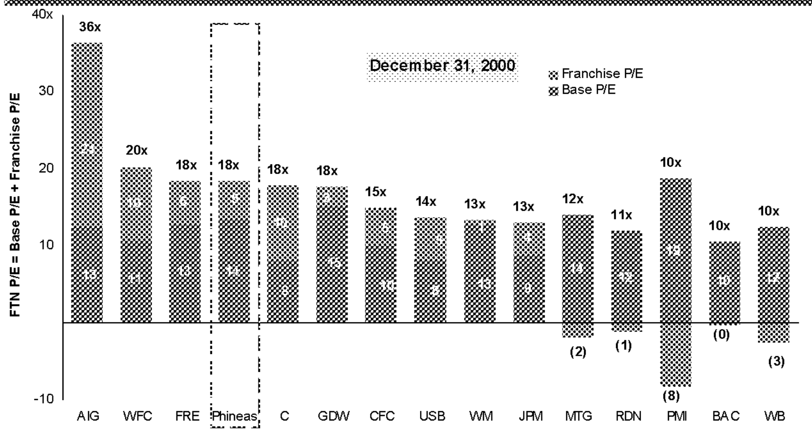
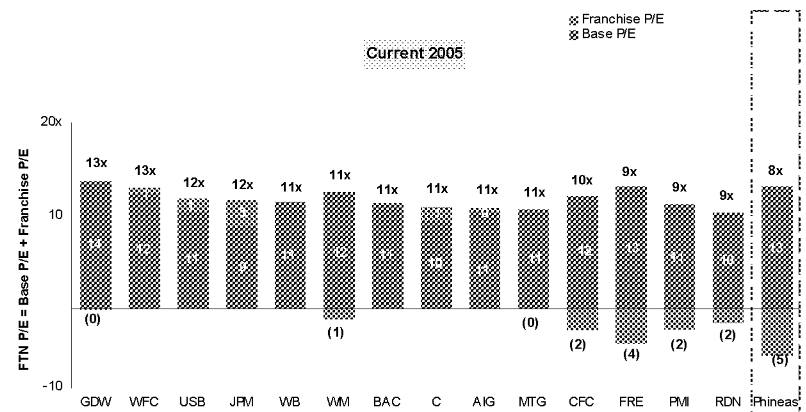
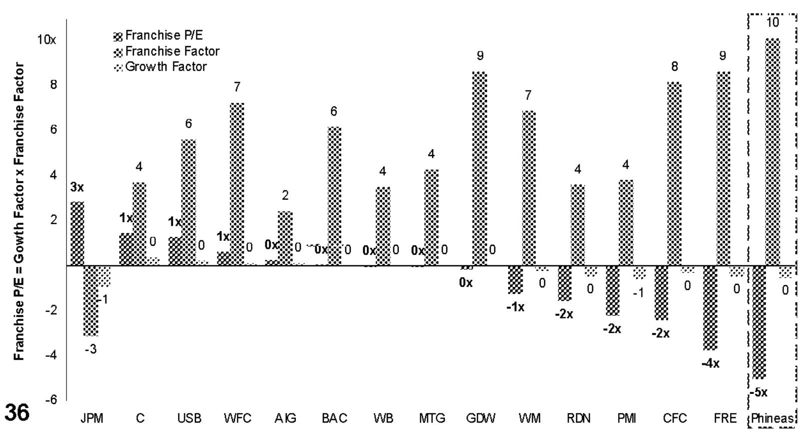
P/E franchise factor model: Phineas vs Peers

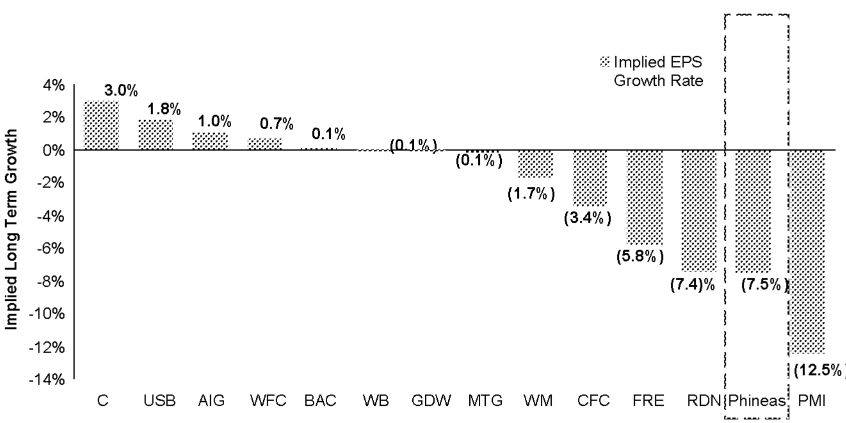
Over time Phineas' Franchise P/E has shrunk considerably...





...while investors still attribute a strong Franchise Factor to Phineas, their current view is that Phineas' EPS, and the mortgage industry in general, will contract





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Investor considerations / opinions

- ▲ "I am interested in the GSEs: adjustable-rate product will become less popular relative to fixed-rate product as the yield curve flattens."
- ▼ "Phineas' financials are too opaque and complicated to understand." "My time is better spent analyzing alternatives in the financial stock sector." Hedging activities at Phineas are indecipherable.
- ▼ "How do I derive a true operating result for Phineas?" "I am concerned about sequential-quarter volatility in reported results."
- ▼ The US has enjoyed a terrific appreciation in home ownership and home values. "We are in the 11th inning." "The market is increasingly speculative and I don't want to be exposed."
- ▼ New mortgage product creation and usage is elevating credit risk in the system, with uncertain consequences for Phineas and investors.
- ▼ "I prefer to own the originators such as Wells Fargo and Countrywide." "I prefer to own the mortgage insurers--they have excess capital that can be returned to shareholders, and inexpensive valuations."
- ▼ "Am I still exposed to legislative risk?" "I have no insight into the legislative process and potential outcomes."

Price/ EPS is most prevalent valuation metric

Institution/ Name of Analyst	Analyst coverage area [a]	Valuation Methodology: Price / 2006E GAAP EPS	Price / Core BV	Price / Fair BV	DCF	Additional methodologies	Rating	Target price	LTG
Lehman Brothers/ Bruce Harting [b]	Specialty/ Mortgage Finance			●	●	DCF based on liquidation	Overweight/ Neutral	$100.00	13.0%
Bear Stearns & Co./ David Hochstim	Mortgage Finance	●		●		Residual income valuation	Outperform	89.00	10.0
UBS/ Eric Wasserstrom	Mortgage Finance	●		●	●	DCF based on liquidation	Buy	88.00	12.0
A.G. Edwards & Son/ Matthew Park	Thrifts & Mortgage Finance	●					Buy	82.00	5.0
JP Morgan/ George Sacco	Mortgage Finance		●				Overweight	80.00	--
Piper Jaffray & Co./ Robert Napoli	Mortgage Finance	●					Outperform	79.00	--
Merrill Lynch/ Kenneth Bruce	Consumer Finance / Credit Cards	●					Buy	76.50	--
Sanford Bernstein & Co./ Jonathan Gray [b]	Mortgage Finance	●					Outperform	74.00	--
Morgan Stanley/ Kenneth Posner [b]	Mortgage Finance			●	●	Multi-factor economic capital model	Equal Weight/ Attractive	67.00	--
Friedman, Billings, Ramsey/ Paul Miller	Mortgage Finance		●			Projections of core capital level	Market Perform	65.00	8.7
Prudential Equity Group/ Bradley Ball	Mortgage Finance			●		Blended portfolio metric	Neutral Weight	63.00	15.0
Wachovia/ Jim Shanahan	Mortgage Finance	●					--	-- [c]	8.0

Source: Wall Street Research.
(a) Institutional Investor category for ranked analyst.
(b) Institutional Investor ranked analyst.
(c) Wachovia provided a range of $59-$65 which is not included in IBES estimates

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Reconciling management estimates to median public EPS estimates

($ in millions except per share figures)

Earnings Contribution	2006E	
Per Share Basis		
Range of IBES Estimates (a)	$6.25 - $7.69	
Median IBES Estimates (a)	$7.15	
Management Projected EPS (b)	7.10	
Shortfall	**$0.05**	
Shortfall - Total	**$47**	
	Total	**% of Total**
Single Family	$2,934	43%
Multi Family	277	4
Portfolio	3,663	53
Total Projected Core Earnings	$6,874	100%

(a) As of 07/11/2005.

(b) Aggregate of individual business line projections, per management estimates. Assumes 967.9mm shares outstanding.

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Whole Company Valuation

Citigroup's approach to valuation

	Relevant parameters	Comments
Comparable Company Analysis	◈ Price to 2006 Earnings	◈ Selected categories of comparable companies (Countrywide, mortgage insurers, thrifts, FRE) ◈ Based on IBES EPS estimates for Phineas as a whole, based on management core earnings estimates for business line valuations
ROACE versus Price-to-Book Regression	◈ Return on Equity ◈ Price to Book	◈ Regression of ROE and P/B of a peer group to derive an implied P/B multiple ◈ Implied P/B multiple to be applied to Phineas common equity
Sum-of-the-Parts	◈ DCF ◈ ROE - P/B Regression	◈ Value Single- and Multi-Family and Portfolio businesses individually on the basis of DCF resulting in an overall value for Phineas ◈ Based on management projections of required capital and core earnings ◈ ROE – P/B regressions for multiple peer groups imply a profitability adjusted P/B multiple for each business line
Discounted Cash Flow	◈ Cost of equity: 7.7% ◈ Terminal value earnings multiple for whole company, single family and multi-family ◈ Terminal value book multiple for portfolio	◈ DCF for the whole company based on I/B/E/S EPS estimates and capital requirements derived from the business line assumptions ◈ DCF for the business lines based on management projections of core earnings projections and capital requirements ◈ Cost of equity based on a CAPM approach with a 5% EMRP and a 5-year weekly adjusted beta of 0.68

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Status quo versus private company DCF valuation assumptions

	With Charter	Without Charter
Tax-Rate	❖ 27% effective tax rate	❖ 31% effective tax rate
Single- and Multi Family	❖ 58.5 basis points required capital (assumes 30% surcharge to continue) ❖ Single family book of business grows at a constant rate of 3.1% from 2007 (46.1% of mortgage debt outstanding growth) ❖ Net income reduced by mission costs (incorporated in management projections) ❖ Beta of 0.68 (cost of equity 7.7%) ❖ Terminal value: 9.0x P/E multiple	❖ 66.4 basis points required capital (median of three financial guarantors) ❖ Single family book of business shrinks by 15% per annum beginning in 2006. Single family book of business reduced to $1.2 trillion by 2009 ❖ Net income increased by 5% to adjust for "mission costs" ❖ Single-family beta of 1.07 (median of peer group) ❖ Multi-family beta of 0.89 (median of peer group) ❖ Terminal value: 9.0x P/E multiple
Portfolio	❖ Portfolio growth based on management assumptions (0% growth through 2009) ❖ 2.67% required capital ❖ Funding costs reflect management estimates on April 27 ❖ Beta of 0.68 (cost of equity of 7.7%) ❖ Terminal value book multiple of 1.2x	❖ Portfolio in run-off; balance is reduced to $228 billion by 2009 ❖ Assumed to be no "mission costs" associated with the Portfolio business Valuation as Bank ❖ 5.0% required capital (leverage ratio for "well-capitalized" banks) ❖ Funding reflects banks' cost of raising senior unsecured debt (median of comparables) ❖ Beta of 0.82 (median of peers cost of equity of 8.4%) ❖ Terminal value book multiple of 1.2x Valuation as REIT ❖ Funding reflects REIT's average cost of funding (median of comparables) ❖ 10.0% required capital ❖ Beta of 0.62 (median of peers cost of equity of 7.4%) ❖ Terminal value book multiple of 1.2x

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Phineas cost of equity without charter

Phineas' Portfolio peers

Ticker	Name	Beta[1]	Cost of equity[2]
	Residential MBS REITs		
RWT	Redwood Trust Inc.	0.62	7.4%
NLY	Annaly Mortage Mgmt Inc.	0.55	7.1
ANH	Anworth Mtg Asset Corp.	0.68	7.7
LUM	Luminent Mortgage Capital	1.00	9.3
MFA	MFA Mortgage Investments Inc.	0.59	7.3
	Commercial MBS REITs		
NCT	Newcastle Investment Corp.	0.57	7.2%
AHR	Anthracite Capital Inc.	0.60	7.3
CT	Capital Trust Inc.	0.66	7.6
	Median Portfolio - REIT	**0.62**	**7.4%**
	Thrifts		
GDW	Golden West Financial Corp.	0.63	7.4%
WM	Washington Mutual Inc.	0.75	8.1
	Banks with Mortgage Platforms		
WFC	Wells Fargo & Co.	0.77	8.2%
BAC	Bank Of America Corp.	0.94	9.0
NCC	National City Corp.	0.86	8.6
NFB	North Fork Bancorporation	0.88	8.7
	Median Portfolio - Bank	**0.82**	**8.4%**
	Median Portfolio	**0.68**	**7.7%**

Phineas' Single Family peers

Ticker	Name	Beta[1]	Cost of equity[2]
	Financial Guarantors		
MBI	MBIA Inc.	1.08	9.7%
ABK	Ambac Financial Group	0.96	9.1
AGO	Assured Guaranty Ltd.	1.08	9.7
	Mortgage Insurers		
MTG	MGIC Investment Corp.	1.06	9.7%
PMI	PMI Group Inc.	0.95	9.1
RDN	Radian Group Inc.	1.09	9.7
	Median Single Family	**1.07**	**9.7%**

Phineas' Multi Family peers

Ticker	Name	Beta[1]	Cost of equity[2]
	Financial Guarantors		
MBI	MBIA Inc.	1.08	9.7%
ABK	Ambac Financial Group	0.96	9.1
AGO	Assured Guaranty Ltd.	1.08	9.7
	Multi-Family Banks		
NYB	New York Community Bancorp Inc.	0.81	8.4%
ICBC	Independence Community Bank Corp.	0.76	8.1
	Thrifts		
WM	Washington Mutual Inc.	0.75	8.1
	Median Multi Family	**0.89**	**8.8%**

Without the charter, we have assumed that Phineas' business will consist of 38% portfolio, 54% single-family business and 8% multi-family business and the company's blended cost of equity would be: 38% x 8.4% + 54% x 9.7% + 8% x 8.8% = 9.1%

(1) 5 year weekly adjusted Beta.
(2) We assumed a risk free rate of 4.34% and an equity market risk premium of 5%.

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Phineas SWOT analysis

Strengths

- Low cost of funds relative to market: perceived enhanced GSE-based credit compared to traditional AAA rating
- Unlimited access to credit markets
- Lower capital requirements (both regulatory and risk-based)
- High liquidity of securities
- Leading risk management expertise and infrastructure
- Strong relationships with originators and mortgage investors

Weaknesses

- Volatile GAAP accounting for portfolio → Investors will continue to ascribe low valuation to a volatile business
- Implicit mandate to be in all markets at all times
- Costs associated with meeting mission goals
- Limitations on products that can be wrapped in the guaranty business
- Constrained business opportunities and restrained risk profile

Opportunities

- Expand guaranty business into Alt-A and Sub-prime
- Take advantage of new business opportunities such as mortgage insurance and risk analytics
- Develop direct relationships with mortgage brokers
- Manage first loss position
- Increase duration risk opportunistically
- Manage non-mortgage securities through expertise in managing interest rate risk

Threats

- Investors may continue to focus on accounting returns rather than total economic returns
- Tight MBS OAS diminishes Phineas' funding margin; and even tighter OAS is a threat
- Basel II may increase financial institutions demand for mortgage assets
- Significant demand from U.S. depositories, REITs, hedge funds, etc. for mortgage assets
- Mission costs continue to escalate

Whole company competitor comparison

($ in millions)	Phineas	FRE	Mortgage Banks	Mortgage Insurers	Financial Guarantors	Thrifts
Price / 2006E	8.3x	9.4x	8.7x	8.6x	10.1x	11.3x
LT EPS Growth	10.0%	9.5%	12.0%	12.0%	13.0%	11.3%
On-Balance Sheet Assets	$1,004,000	$795,284	$128,496	$6,381	$18,585	$207,403
Off-Balance Sheet Assets (a)	$1,311,668	852,270	NM	$30,601	$757,037	NM
Total Common Equity (b)	$26,392	$26,807	$10,310	$3,689	$5,024	$14,250
Net Income	$7,804	$2,937	$2,198	$519	$725	$2,079
ROAA (c)	0.8% / 0.3%	0.4% / 0.2%	1.9%	8.1% / 1.4%	3.9% / 0.1%	1.1%
ROACE	35.0%	10.1%	23. 9%	13.9%	12.7%	15.7%
Capital Measures						
Tangible Common Ratio	2.6%	3.3%	8.0%	NM	NM	5.9%
Equity / Assets	3.5%	3.9%	8.0%	NM	NM	6.9%
Equity / Risk in Force Assets	1.6%	1.8%	NM	12.1%	0.7%	NM

Source: Company financials, IDD and Powerdata. Market data as of July 11, 2005.
As of December 31, 2004. Phineas data based on management estimates. Data for peer groups represent medians for each respective peer group.
Mortgage Banks refer to Countrywide Financial Corp. (CFC); Mortgage Insurers includes MGIC Investment Corp. (MTG), Radian Group Inc. (RDN) and PMI Group Inc. (PMI); Financial Guarantors include MBIA Inc. (MBI), Ambac Financial Group Inc. (ABK) and Assured Guaranty Limited (AGO); Thrifts include Washington Mutual Inc. (WM) and Golden West Financial (GDW).
(a)Off-Balance Assets: For Phineas and FRE measured as total book of business held by 3rd party investors; for mortgage insurers and financial guarantors measured as total risk-in-force assets.
(b)Equity for Phineas as of 12/31/04 provided by management less preferred equity of $9.1 billion.
(c)Returns measured against on-balance sheet assets (1st number) and total managed assets for Phineas, Freddie Mac, mortgage insurers and financial guarantors (2nd number).

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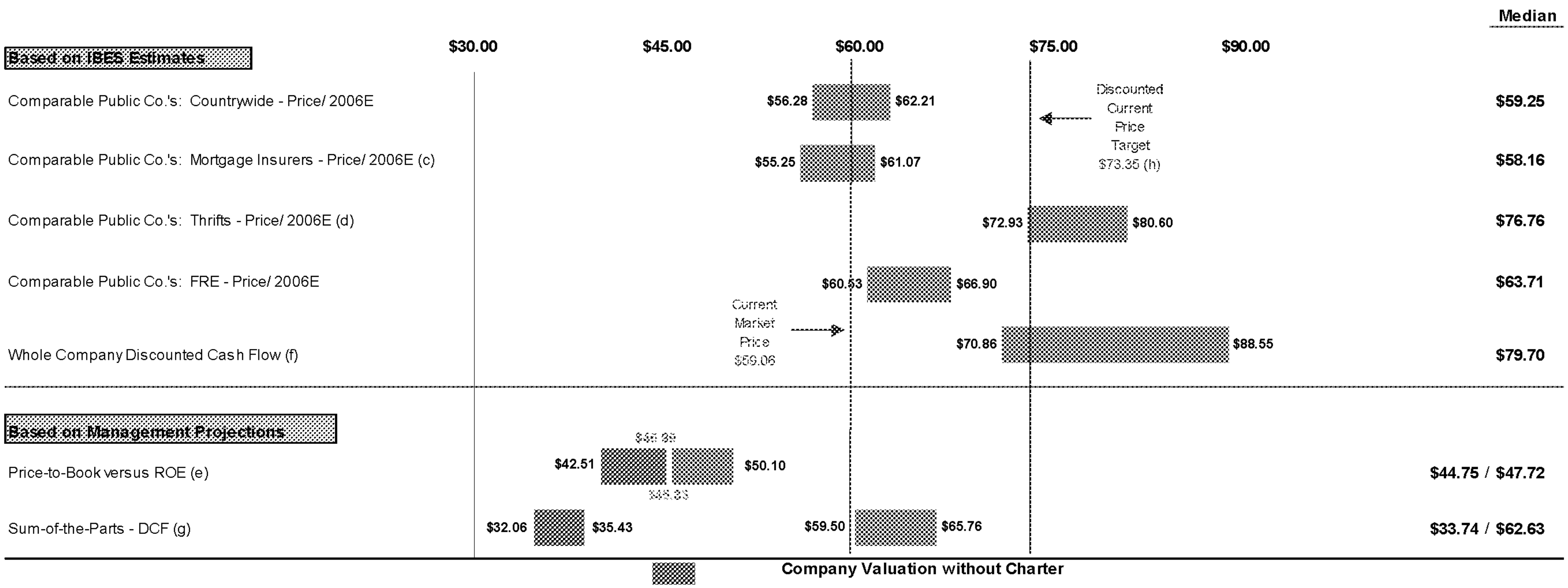
Whole company valuation summary



($ in millions, except per share data)	Phineas	$30.00	$45.00	$60.00	$75.00	$90.00
		Implied Valuation Multiples				
Equity Valuation Multiples						
2005 Net Income [(a)]	$6,727	4.3x	6.5x	8.6x	10.8x	12.9x
2006 Net Income [(a)]	6,921	4.2	6.3	8.4	10.5	12.6
Current Capital [(b)]	26,392	1.1	1.7	2.2	2.8	3.3

Valuation Per Share

N.B. Ranges for comparable public company valuations based on 5% variance from valuation using median P/2006E multiple. Segment valuation without charter based on Citigroup discounted cash flow projections for segment.
(a) Based on IBES estimates as of July 11, 2005.
(b) Equity as of 12/31/04 provided by management, adjusted for preferred equity.
(c) Companies include MGIC Investment Corp. (MTG), Radian Group Inc. (RDN), and PMI Group Inc. (PMI).
(d) Companies include Golden West Financial Corp. (GDW) and Washington Mutual Inc. (WM).
(e) Based on regression analysis of price-to-book versus ROE for peer group.
(f) DCF based on 7.7% cost of equity and IBES median net income. Income grows at 5.0% in 2007-2009.
(g) Based on management projections for Single- and Multifamily businesses. Citigroup projections model driven by management assumptions for the Portfolio business.
(h) Discounted current IBES median price target of $79.00 per share over one year at Phineas' cost of equity.
(I) Fair value of existing book of business is approximately $32 billion.

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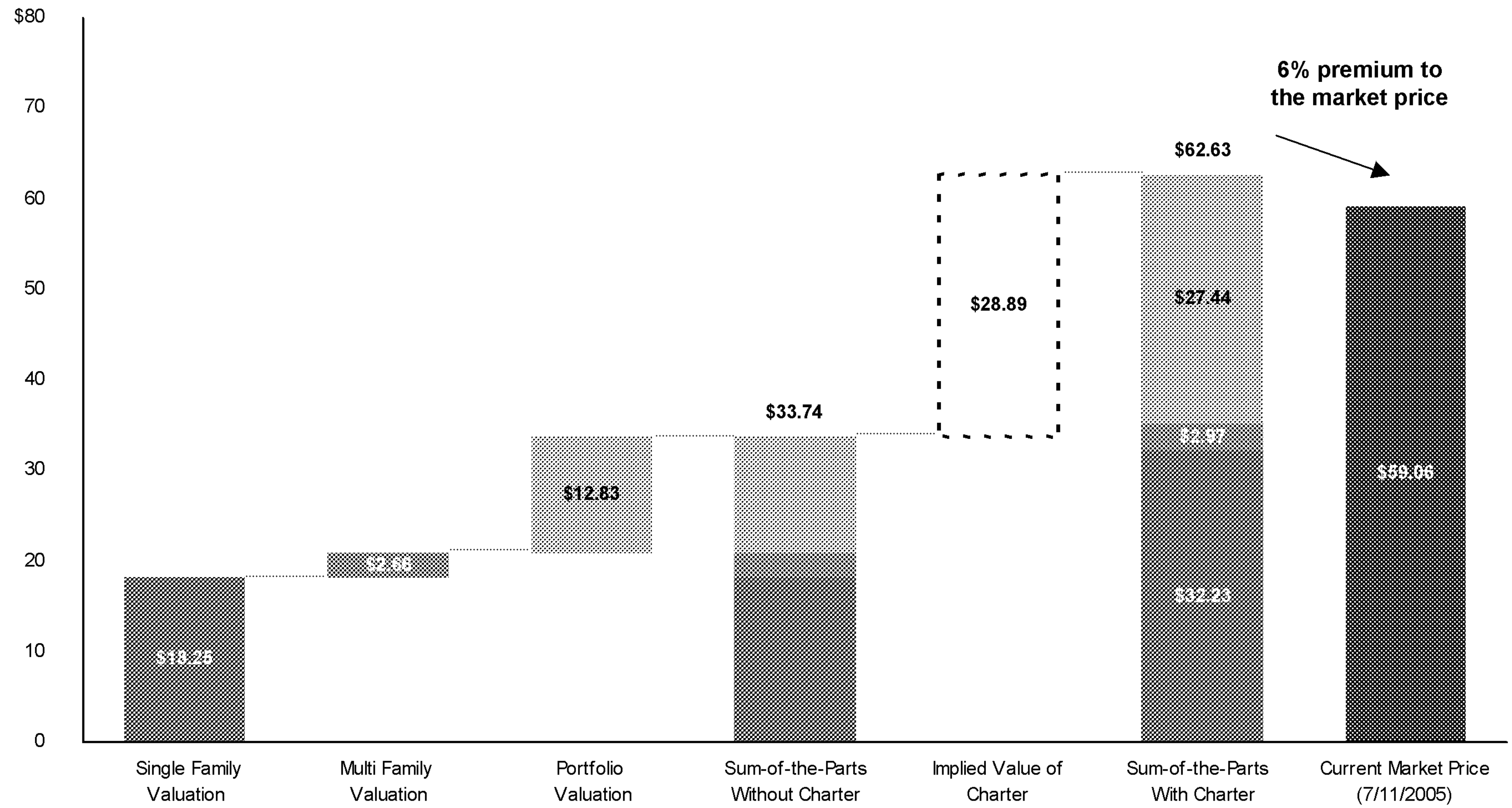
Current Phineas sum-of-the-parts DCF valuation



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Single Family Valuation

Single family SWOT analysis

Strengths

- Liquidity of TBA securities
- Exceptional size and scale
- Relationships with originators
- Capital advantages
- Best execution for 15/30 year fixed rate mortgages
- Process exemptions (ie. SEC and rating agency fees)
- Depth of database covering mortgage loans

Weaknesses

- Costs associated with meeting mission goals
- Constrained business opportunities
- Implicit restraint on risk profile
- Limitations on products that can be wrapped

Opportunities

- Expand into Alt-A and Sub-prime sectors
- Manage first loss position; establish mortgage insurance division
- Utilize alternative transaction structures (i.e. synthetic transactions)
- Develop direct relationships with mortgage brokers
- Create JV with mortgage originator to gain more control of origination process
- Set up a conduit; purchase loans directly and issue proprietary MBS

Threats

- Consolidation of top originators
- Inaccurate perception of credit risk
- Growth of private label market
- Increased volume of ARM originations
- Increased volume of Alt-A and sub-prime originations
- Increased volume of affordability products
- New legislation may make meeting housing goals tougher and reduce capital advantage

Single family competitor comparison

($ in millions)	Phineas Single Family	Financial Guarantors	Mortgage Insurers
Price / 2006E	NM	10.1x	8.6x
LT EPS Growth	NM	13.0%	12.0%
Total Book of Business (a)	$2,042,000	$757,037	$30,601
Total Common Equity (b)	$11,946	$5,024	$3,689
Net Income	$3,338	$725	$519
% Revenue from Guaranty Business	82.8%	54.0%	79.4%
Return on Avg. Book of Business	0.2%	0.1%	1.6%
ROACE	28.0%	12.7%	13.9%
Capital Measures			
Equity/ Risk in Force Assets	0.6%	0.7%	12.1%

Source: Company financials, IDD and Powerdata. Market data as of July 11,2005.
As of December 31, 2004. Phineas data based on management estimates. Data for financial guarantors and mortgage insurers represent medians for selected peer group.
Mortgage Insurers includes MGIC Investment Corp. (MTG), Radian Group Inc. (RDN) and PMI Group Inc. (PMI); Financial Guarantors include MBIA Inc. (MBI), Ambac Financial Group Inc. (ABK) and Assured Guaranty Limited (AGO).
(a) For Phineas and FRE measured as total book of business; for mortgage insurers and financial guarantors measured as total risk-in-force assets.
(b) Measured as required capital based upon management estimates.

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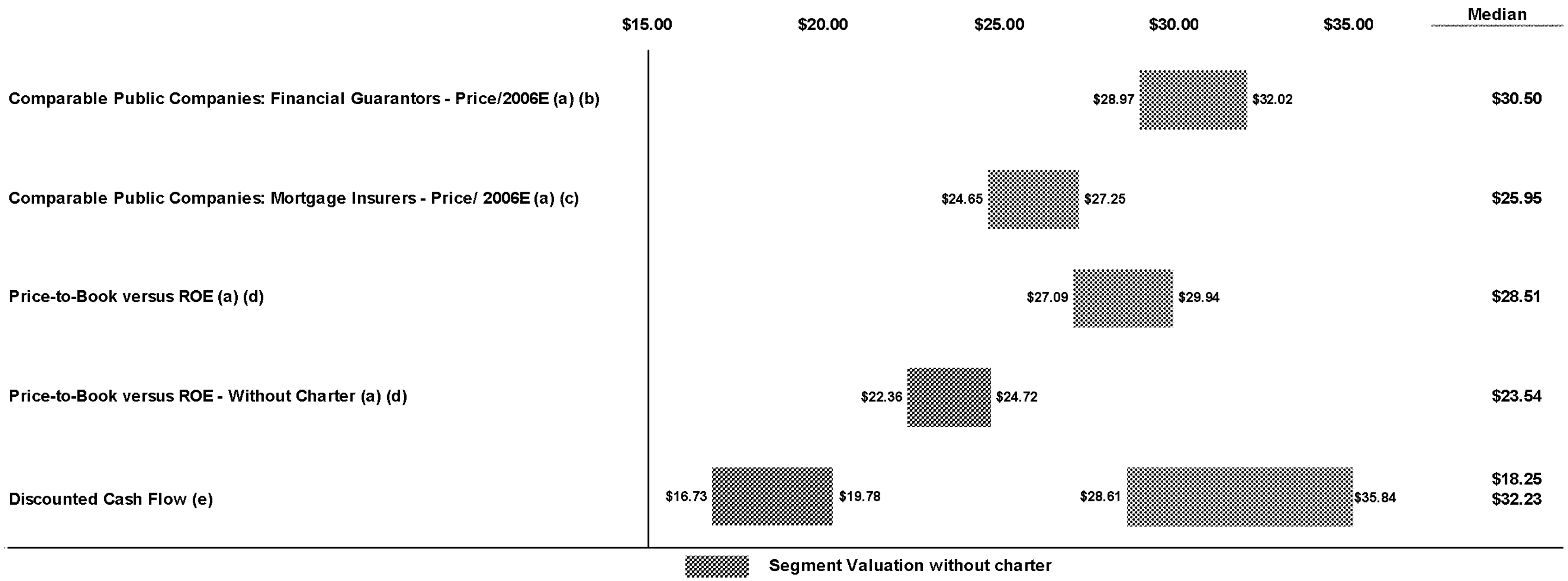
Single family valuation summary



($ in millions, except per share data)	Phineas	Valuation Per Share $15.00	$20.00	$25.00	$30.00	$35.00
		Implied Valuation Multiples				
Equity Valuation Multiples						
2005 Net Income (a)	$2,806	5.2x	6.9x	8.6x	10.3x	12.1x
2006 Net Income (a)	2,934	4.9	6.6	8.2	9.9	11.5
Current Required Capital (a)	11,946	1.2	1.6	2.0	2.4	2.8
2006 Required Capital (a)	12,285	1.2	1.6	2.0	2.4	2.8

N.B. Ranges for comparable public company valuations based on 5% variance from valuation using median P/2006E multiple. Segment valuation without charter based on Citigroup discounted cash flow projections for segment.
(a) Based on management projections.
(b) Companies include MBIA Inc. (MBI), Ambac Financial Group (ABK) and Assured Guaranty Ltg. (AGO).
(c) Companies include MGIC Investment Corp. (MTG), Radian Group Inc. (RDN) and PMI Group Inc. (PMI.)
(d) Based on regression analysis of price-to-book versus ROE for peer group.
(e) DCF based on company projections. Assumes 7.7% cost of equity, 9.0x terminal multiple in the current configuration.

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Multi Family Valuation

Multi family SWOT analysis

Strengths

- Contributes substantially more to meeting housing goals than single family
- Outstanding relationships with DUS lenders
- Market leading position
- Depth of database covering mortgage loans
- Credit risk management capabilities
- Exceptional size and scale
- Process exemptions (i.e SEC and Rating agency fees)

Weaknesses

- Costs associated with meeting mission goals
- Increasing contribution to housing goals
- Long origination cycle times
- Implicit restraint on risk profile
- Constrained business opportunities

Opportunities

- Expansion into small balance commercial loans
- Lead standardization of market / products
- Develop direct relationships with mortgage brokers
- Create JV with mortgage originator to gain more control of origination process
- Set up a conduit; purchase loans directly and issue proprietary MBS
- Increase risk taking capacity; new products / programs
- Manage first loss position

Threats

- Condominium price increases may dissipate if condominiums purchased are returned to the rental market
- Multi family delinquencies have been rising while other property types have either declined or remained stable
- Consolidation of top originators
- Inaccurate perception of credit risk
- Growth of CMBS securitization markets
- New legislation may make meeting housing goals tougher and reduce capital advantage
- Increased pressure from Freddie Mac
- Growth in conduit market share, tighter pricing

Multi family competitor comparison

($ in millions)	Phineas Multi-Family	Financial Guarantors	Multi-Family Banks & Thrifts
Price / 2006E	NM	10.1x	12.0x
LT EPS Growth	NM	13.0%	10.0%
Total Book of Business (a)	$110,023	$757,037	$20,399
Total Common Equity (b)	$644	$5,024	$3,186
Net Income	$260	$725	$355
% Revenue from Guaranty Business	95.4%	54.0%	NM
Return on Avg. Book of Business	0.3%	0.1%	NM
ROACE	43.2%	12.7%	12.1%
Capital Measures			
Equity/ Risk in Force Assets	0.6%	0.7%	NM
Tangible Equity/ Tangible Assets	NM	NM	5.2%

Source: Company financials, IDD and Powerdata. Market data as of July 11, 2005.
As of December 31, 2004. Phineas data for based on management estimates. Data for financial guarantors and mortgage insurers represent medians for selected peer group.
Financial Guarantors include MBIA Inc. (MBI), Ambac Financial Group Inc. (ABK) and Assured Guaranty Limited (AGO); Multi-Family Banks and Thrifts include Washington Mutual Inc. (WM), New York Community Bancorp (NYB) and Independence Community Bank Corp. (ICBC).
(a) For Phineas measured as total book of business; for financial guarantors measured as total risk-in-force assets; for multi-family banks and thrifts measured as total on-balance sheet assets.
(b) Measured as required capital based upon management estimates.

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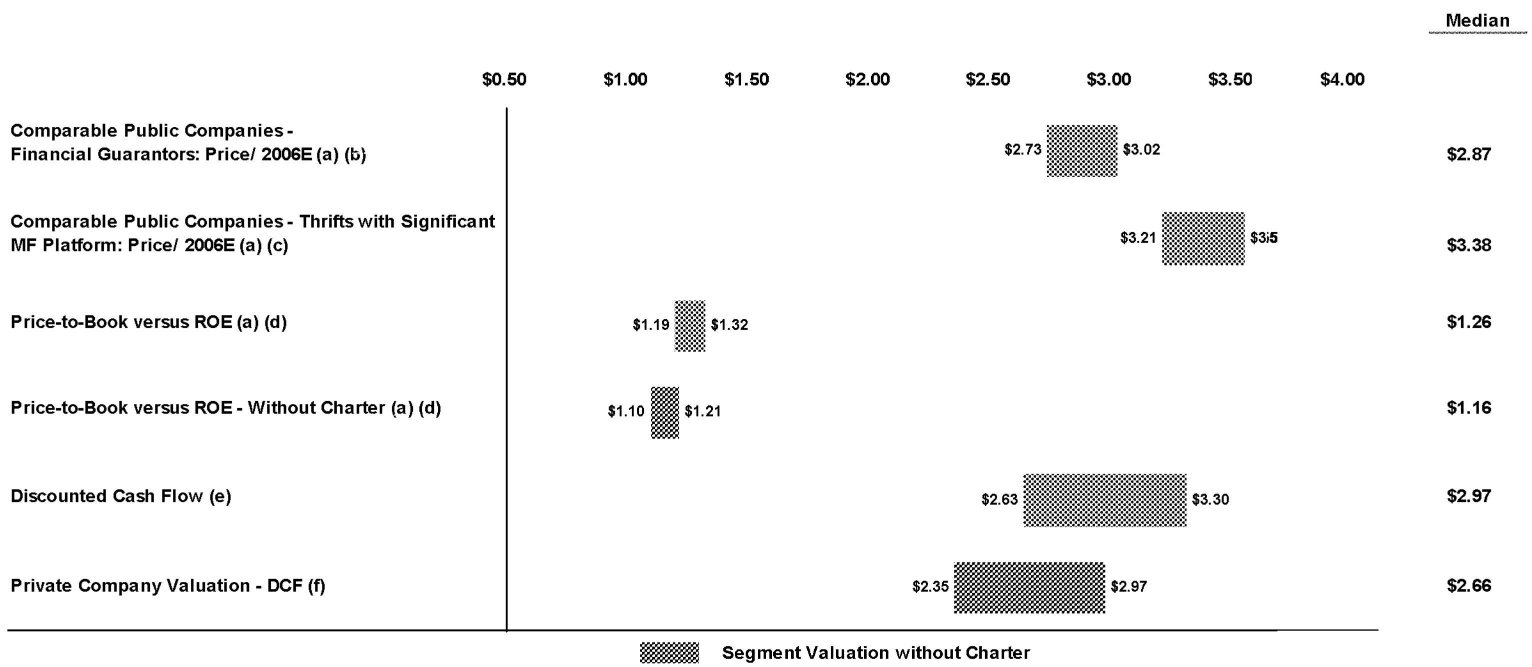
Multi family valuation summary



($ in millions, except per share data)	Phineas	$0.50	$1.00	$1.50	$2.00	$2.50	$3.00	$3.50	$4.00
		Implied Valuation Multiples							
Equity Valuation Multiples									
2005 Net Income (a)	$255	1.9x	3.8x	5.7x	7.6x	9.5x	11.4x	13.3x	15.2x
2006 Net Income (a)	277	1.8	3.5	5.3	7.0	8.8	10.5	12.3	14.0
Current Required Capital (a)	644	0.8	1.5	2.3	3.0	3.8	4.5	5.3	6.0
2006 Required Capital (a)	749	0.6	1.3	1.9	2.6	3.2	3.9	4.5	5.2

N.B. Ranges for comparable public company valuations based on 5% variance from valuation using median P/2006E multiple. Segment valuation without charter based on Citigroup discounted cash flow projections for segment.
(a) Based on management projections.
(b) Companies include MBIA Inc. (MBI), Ambac Financial Group (ABK) and Assured Guaranty (AGO).
(c) Companies include Washington Mutual Inc. (WM), New York Community Bancorp (NYB), Independence Community Bank Corp. (ICBC).
(d) Based on regression analysis of price-to-book versus ROE for peer group.
(e) DCF based on company projections.
(f) DCF based on Citigroup adjusted company projections.

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Portfolio Valuation

Portfolio SWOT analysis

Strengths

- Lower capital requirements (both regulatory and risk-based)
- Unlimited access to credit markets
- Low cost of funds relative to market: perceived enhanced GSE-based credit compared to traditional AAA rating
- Risk management expertise, experience and infrastructure

Weaknesses

- GAAP returns are volatile
- Investors will continue to ascribe lower valuations to volatile earnings
- Temptation to be in all markets at all times to facilitate earnings growth (though this is currently being challenged)

Opportunities

- Phineas' size allows it to benefit from the ability to opportunistically acquire, and selectively retain assets
- Phineas assumes duration risk more opportunistically
- Increased efficiency of derivatives markets means there is an opportunity for Phineas to optimize their match funding via enhanced option-based hedges
- Core embedded advantage in managing interest risk allows Phineas to potentially manage non-mortgage related portfolios

Threats

- Investors may continue to focus on accounting earnings rather than total economic returns; persistence of GAAP volatility may erode long-term value
- Increasing appetite of U.S. depositories (facilitated by Basel II) and hedge funds for mortgage assets
- Tight MBS OAS has diminished Phineas' funding margin, and continued OAS tightening will increase pressure on returns

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Portfolio competitor comparison

($ in millions)	Phineas Portfolio	Residential RMBS REITs	Commercial CMBS REITs	Banks with Mortgage Platform	Thrifts	Fixed Income Asset Managers
Price / 2006E	NM	8.3x	9.9x	11.1x	11.3x	16.9x
LT EPS Growth	NM	5.0%	8.0%	9.9%	11.3%	11.0%
Total Assets	$904,555	$7,319	$3,729	$283,564	$207,403	$636,481 (a)
Total Common Equity	$10,453	$637	$458	$25,340	$14,250	$585
Net Income	$3,131	$78	$43	$4,896	$2,079	$156
ROAA	0.3%	1.3%	2.3%	1.7%	1.1%	15.8%
ROACE	25.0%	14.7%	11.6%	18.2%	15.7%	29.4%
Capital Measures						
Tangible Common Ratio	NM	14.7%	24.3%	5.8%	5.9%	NM
Equity / Assets	2.7%	8.3%	16.2%	9.1%	6.8%	NM

Source: Company financials, IDD and Powerdata. Market data as of July 11, 2005.
As of December 31, 2004. Phineas data on management estimates. Data for Residential RMBS REITs, Commercial CMBS REITs, Banks, Thrifts, and Asset Managers represent medians for selected peer group.
REIT: RMBS includes Annaly Mortgage Management (NLY), Redwood Trust Inc. (RWT), MFA Mortgage Investments Inc. (MFA), Anworth Mortgage Asset Corp. (ANH), and Luminent Mortgage Capital Inc. (LUM); REIT: CMBS includes Newcastle Investment Corp. (NCT), Anthracite Capital Inc. (AHR) and Capital Trust Inc. (CT); Banks w/ Mortgage Platform include Bank of America Corp. (BAC), Wells Fargo & Co. (WFC), National City Corp. (NCC) and North Fork Bancorp. (NFB); Thrifts include Washington Mutual Inc. (WM) and Golden West Financial (GDW); Fixed Income Asset Managers Include BlackRock Inc. (BLK), Nuveen Investments (JNC) and Federated Investors Inc. (FII).
(a) Reflects assets under management (AUM).

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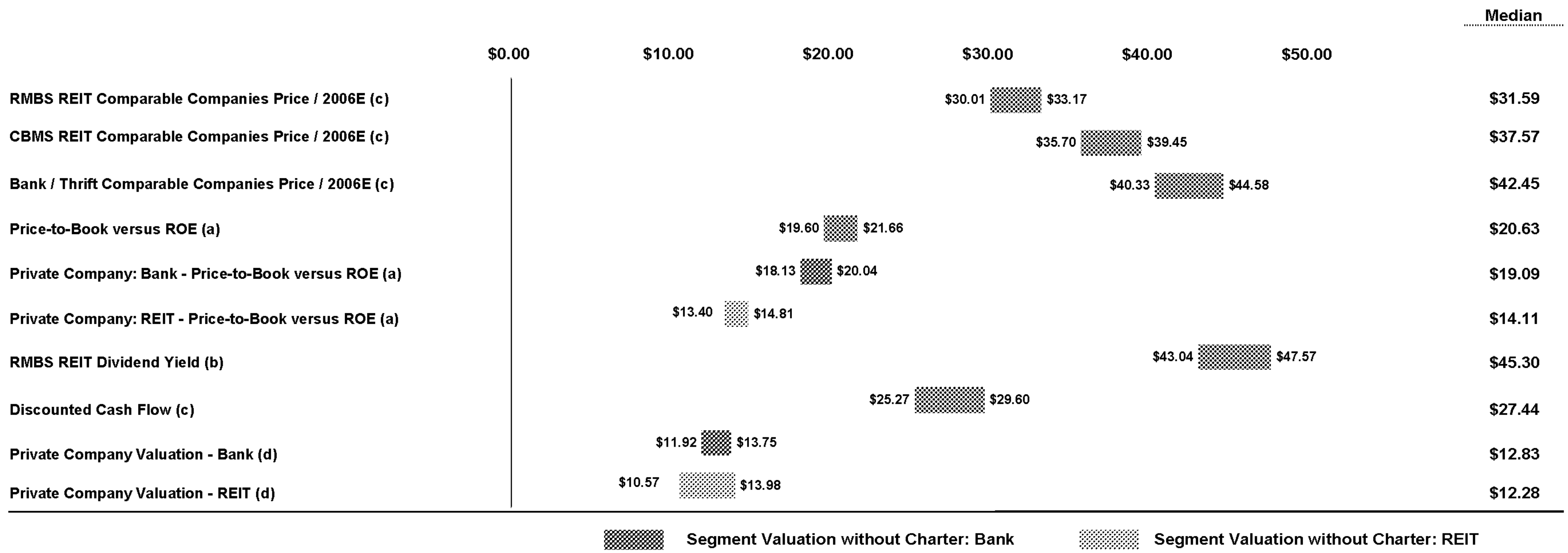
Portfolio valuation summary



($ in millions)	Phineas	Valuation Per Share $10.00	$20.00	$30.00	$40.00	$50.00
		Implied Valuation Multiples				
Equity Valuation Multiples						
2006 Net Income (c)	3,663	2.6x	5.3x	7.9x	10.6x	13.2x
Current Common Required Capital (c)	10,453	0.9	1.9	2.8	3.7	4.6
2006 Common Required Capital (c)	15,688	0.6	1.2	1.9	2.5	3.1

N.B. Ranges for comparable public company valuations based on 5% variance from valuation using median P/2006E multiple. Segment valuation without charter based on Citigroup discounted cash flow projections for segment.

(a) Based on Citigroup regression analysis of price-to-book versus ROE for peer group.

(b) Assumes median dividend yield of 11.2% and a range of +/- 5%.

(c) Based on management projections.

(d) Based on management projections assuming portfolio run-off. Private company projections adjusted by Citigroup.

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Alternative Approaches
To Charter Valuation

Overview of the valuation of the charter

Value Per Share

Methodology	Current Configuration	Without Charter (a)	Implied Charter Value	W/out Charter (Diluted) (c)	Implied Charter Value (Diluted)
Sum-of-the-parts DCF Valuation					
Single Family	$32.23	$19.21	$13.01	$18.25	$13.97
Multi-Family	2.97	2.80	0.17	2.66	$0.31
Portfolio	27.44	13.51	13.93	12.83	$14.61
Total	**$62.63**	**$35.52**	**$27.11**	**$33.74**	**$28.89**
Whole Company DCF (b)	**$79.41**	**$35.52**	**$43.89**	**$33.74**	**$45.67**
Franchise Factor Model			**$19.72**		
Event studies of restatement, late filing and SEC investigation			**$5.46**		

Note: Valuations based on 967.904 million shares outstanding and median of respective valuation range.
(a) Based on management estimates and Citigroup assumptions. Reflects higher capital requirements, representative growth rates or portfolio size, and representative cost of funds as a non-GSE company.
(b) Whole company projections based on IBES estimates. Implied charter value is calculated by subtracting the valuation of the company without the charter.
(c) Assumes 50.852 million common shares are issued at market price to meet the additional capital requirement as a bank (5% tangible equity ratio).

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Tipping point scenarios: Impact on Phineas growth & profitability

Description	Impact (Management Projections)

Status quo

- No material changes to current capital requirements
- 2.67% capital requirement

	2006	2007	2008	2009
After-Tax ROACE (a)	24.7%	25.8%	25.8%	25.1%
Dividend Payout Ratio (b)	73.3%	90.2%	81.7%	94.1%
YOY EPS Growth (Fully Diluted)	10.6%	9.2%	3.6%	0.7%

	Total	Change in Value	Capital Raised [c]	NPV / Share [d]
Sum-of-the-Parts Value	$60,621	–	–	$62.63

Bank capital requirement

- 5% total capital requirement for the portfolio
- No portfolio reduction
- Assumes 232mm common shares are issued at market price

	2006	2007	2008	2009
After-Tax ROACE (a)	19.9%	16.7%	16.9%	16.7%
Dividend Payout Ratio (b)	(183.9%)	91.0%	83.1%	94.6%
YOY EPS Growth (Fully Diluted)	(3.2%)	8.7%	3.4%	0.7%

	Total	Change in Value	Capital Raised [c]	NPV / Share [d]	Impact / Share
Sum-of-the-Parts Value	$59,054	($1,566)	$13,714	$49.21	($13.42)

"Economic" capital requirement

- Portfolio capitalized using median capital levels of largest financial institutions
- 6.9% total capital requirement[e]
- 490mm common shares issued at market price

	2006	2007	2008	2009
After-Tax ROACE (a)	17.5%	13.4%	13.6%	13.5%
Dividend Payout Ratio (b)	(364.5%)	91.5%	84.0%	94.9%
YOY EPS Growth (Fully Diluted)	(15.2%)	8.3%	3.4%	0.8%

	Total	Change in Value	Capital Raised [c]	NPV / Share [d]	Impact / Share
Sum-of-the-Parts Value	$58,547	($2,074)	$28,918	$40.17	($22.46)

Portfolio runoff

- Existing portfolio assets are run-off (no new business)
- No change in capital requirements

	2006	2007	2008	2009
After-Tax ROACE (a)	25.7%	27.9%	29.0%	29.1%
Dividend Payout Ratio (b)	153.7%	145.9%	114.4%	122.9%
YOY EPS Growth (Fully Diluted)	(13.8%)	(4.9%)	(4.6%)	(5.1%)

	Total	Change in Value	Capital Raised [c]	NPV / Share [d]	Impact / Share
Sum-of-the-Parts Value	$47,966	($12,655)	–	$49.56	($13.07)

5bp user fee

- 5bps after-tax user fee imposed on the total book of business

	2006	2007	2008	2009
After-Tax ROACE (a)	20.7%	21.8%	21.8%	21.2%
Dividend Payout Ratio (b)	68.1%	88.5%	78.5%	93.0%
YOY EPS Growth (Fully Diluted)	(7.3%)	10.3%	3.6%	0.2%

	Total	Change in Value	Capital Raised [c]	NPV / Share [d]	Impact / Share
Sum-of-the-Parts Value	$48,200	($12,420)	–	$49.80	($12.83)

Break-even user fee

- 11bps after-tax user fee imposed on the total book of business
- Reduces value of charter to zero

	2006	2007	2008	2009
After-Tax ROACE (a)	15.7%	16.9%	16.9%	16.3%
Dividend Payout Ratio (b)	57.9%	85.1%	72.2%	90.9%
YOY EPS Growth (Fully Diluted)	(29.7%)	12.5%	3.7%	(0.7%)

	Total	Change in Value	Capital Raised [c]	NPV / Share [d]	Impact / Share
Sum-of-the-Parts Value	$32,659	($27,961)	–	$33.74	($28.89)

(a) Based on common equity.
(b) Assumes all net income in excess of that required to maintain minimum capital levels is paid to shareholders as a dividend.
(c) Assumes any shortfall in capital required is funded through the issuance of new shares of common equity in the market.
(d) Calculated on a fully diluted basis.
(e) Median of Citigroup (C), Bank of America (BAC), JP Morgan Chase (JPM), American Int'l Group (AIG), Morgan Stanley (MWD), Goldman Sachs (GS), Lehman Brothers (LEH), Washington Mutual (WM), Golden West Financial (GDW).

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Overview of alternative charter valuation approaches

- Our proprietary credit rating model suggests that without the implicit government guarantee Phineas' S&P rating would be downgraded from AAA to A
- This is broadly consistent with some preliminary S&P comments on the downgrade of WestLB, a somewhat comparable case in Europe
- Assuming the loss of the implicit government guarantee, Phineas would have to issue $18bn new common equity to improve its credit rating by 1 notch
- The loss of the implicit government guarantee will also have potentially an impact on the cost of equity. Our estimates suggest that Phineas costs of equity would change from 7.7% to 9.1%
- Taken together, the reduction in ROE and the increase in cost of capital yield a reduction in P/E by 2.6x which implies a reduction in value by $17.8 billion. This would be an estimate of the value of the implicit government guarantee
- Our model also suggests that the market currently perceives a negative earnings growth rate for Phineas going forward (assuming no charter change), in stark contrast to the positive growth predicted 5 years ago. Similar growth estimates are also observed for firms in the mortgage sector
- The value of the implicit government guarantee is also shown to be present when we evaluate the response of Phineas stock price to negative announcements such as delay in filing, restatements, and SEC investigations which occurred during the last two years. In all cases, Phineas' stock dropped significantly less than companies that experienced similar events but had no government guarantees

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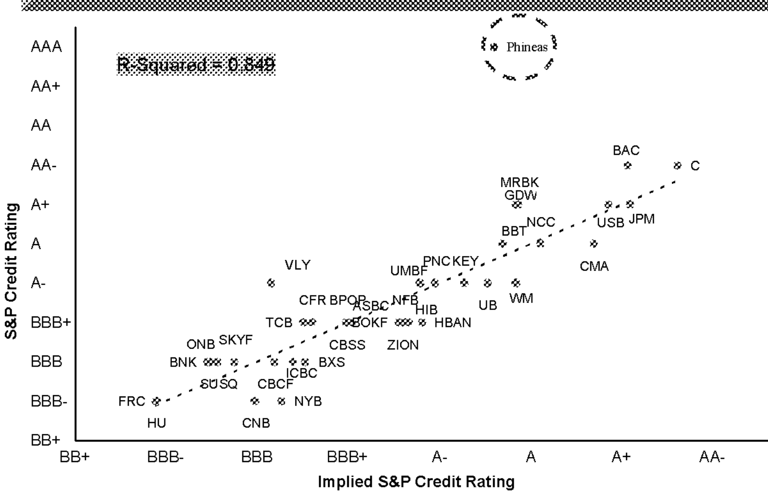
Phineas: Implied credit rating

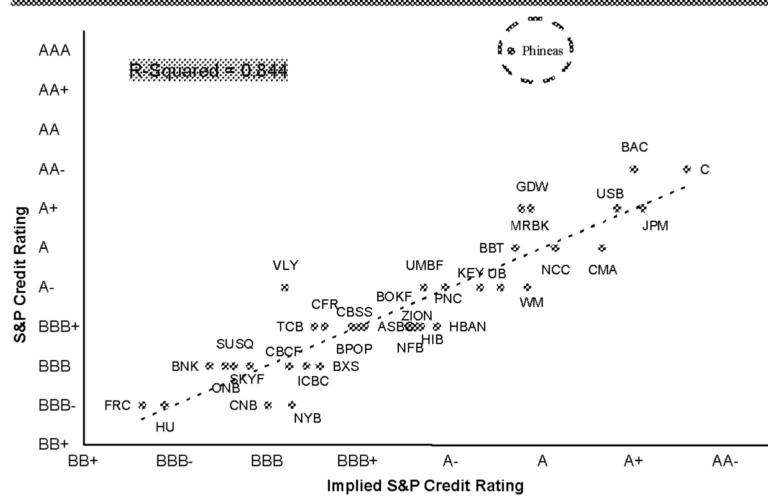
- The combination of size, the ratio of tangible equity to tangible assets and core return on assets explains about 85% of the ratings variation in the peer group
- We built two models using a different measure for size: tangible common equity and total assets. We used Phineas' financial metrics as of FYE2004 provided by management; for the peers we used the most recent financial data
- Provided that in a post charter period Phineas is rated by S&P as a mortgage issuer/bank, we find that its implied S&P credit rating would be A

Proprietary Credit Rating Model using Total Assets as a size metric



Credit Rating = -12.95 + 2.55 x Log (Total Assets ($000)) + 0.62 x Tangible Equity / Tangible Assets (%) + 0.86 x Core Return on Assets (%)

Proprietary Credit Rating Model using Tangible Common Equity as a size metric



Credit Rating = -8.66 + 2.54 x Log (Tangible Common Equity ($000)) + 0.46 x Tangible Equity / Tangible Assets (%) + 0.79 x Core Return on Assets (%)

Note 1: Credit rating is expressed as a number ranging from 18 (AAA) to 1 (CCC).
Note 2: Data used for Phineas as of 12/31/04 (provided by management): Tangible GAAP Equity = $35.5bn, Total Assets = $1,004bn

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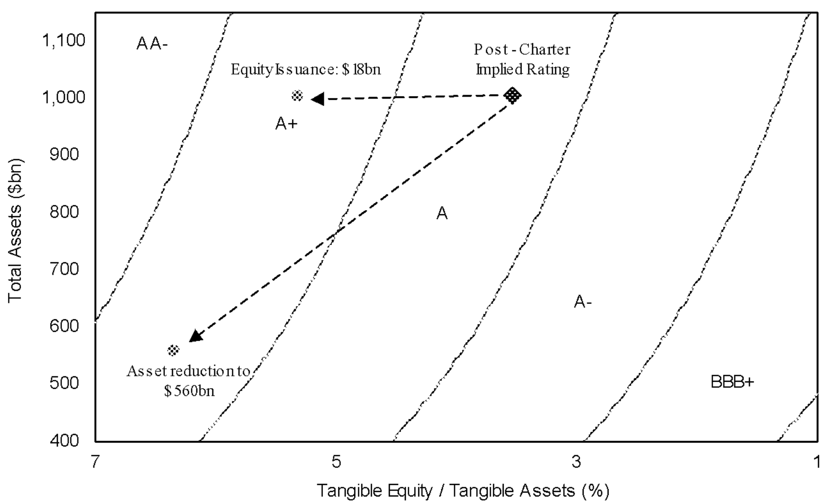
Phineas: Credit impact

- We estimate that Phineas would have to issue $18bn of common equity to increase its A S&P credit rating by one notch to an A+
- Alternatively if Phineas were to reduce its total assets to approximately $560bn, we estimate that the Company would get a one notch upgrade to an A+ S&P rating

Proprietary Credit Rating Model using Total Assets as a size metric



Required Common and Preferred Equity Issuance as a function of targeted credit rating

		Targeted Post Charter S&P Credit Rating						
		AAA	AA+	AA	AA-	A+	A	A-
Total Assets ($bn)	1,004	82	66	50	34	18	2	(14)
	904	72	58	43	29	14	(0)	(15)
	803	62	49	36	23	10	(2)	(15)
	703	51	40	29	18	6	(5)	(16)
	602	41	31	21	12	2	(8)	(17)
	502	29	21	13	5	(3)	(11)	(19)

Note: the above numbers do not take into account any proceeds Phineas might get from selling some of its assets

Note: Data used for Phineas as of 12/31/04 (provided by management): Tangible GAAP Equity = $35.5bn, Total Assets = $1,004bn

A. Franchise Factor Model

Post charter value impact: ROE & COE

Base case	Post Charter Impact: Decline in ROE & increase in the cost of equity
Growth Factor PV Growth in Investment $= \frac{g^{(1)}}{COE^{(2)}\text{-} g} = \frac{0.8\%}{7.7\% - 0.8\%} = 0.12$	Growth Factor PV Growth in Investment $= \frac{g}{COE - g} = \frac{0.8\%}{9.1\% - 0.8\%} = 0.10$
X	X
Franchise Factor Excess Returns $= \frac{ROE^{(3)} - COE}{(ROE) * (COE)} = \frac{33.4\% - 7.7\%}{(33.4\%) * (7.7\%)} = 9.9$	Franchise Factor Excess Returns $= \frac{ROE - COE}{(ROE) * (COE)} = \frac{16.5\% - 9.1\%}{(16.5\%) * (9.1\%)} = 4.9$
+	+
Multiple for Earnings from Current Assets $= \frac{1}{COE} = \frac{1}{7.7\%} = 12.9$	Multiple for Earnings from Current Assets $= \frac{1}{COE} = \frac{1}{9.1\%} = 11.0$
P/E= 14.1x	P/E= 11.4x

$\triangle$P/E(4) = 2.6x
or $\triangle$Value = $17.8bn

(1): Growth: we use Phineas median implied growth for the 1998-2004 period.
(2): We assumed a risk free rate of 4.34% and an equity market risk premium of 5%.
(3): ROE: 3 – year average ROE as of June 2004 (pre-restatement)
(4): NTM EPS estimate: $6.95 per share, number of shares outstanding: 968mm.

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B. Event Studies

Estimate of the value savings due to implied government guarantee

- We estimate the stock price reaction of Phineas and a sample of comparable firms for 3 particular events (delay in filing, restatement of financials, inquiry by SEC) that occurred during the last year for both Phineas and the benchmark firms
- Out of a sample of 88 companies, which delayed filing, 8 companies had been delisted, 47 companies delayed filings with SEC, 24 restated their financial statements and 20 were investigated.[a]
- The event study methodology employed suggests that for all three events the stock price reaction of Phineas was less negative than the average of the benchmark firms, implying that there were value savings for Phineas presumably due to the implied guarantee
- In total, for all three events combined, Phineas' stock price reaction over the 2 days around the announcement averages –5.62% versus –15.02% for the benchmark firms
- The total dollar value savings for Phineas (based on today's equity market value) for the above three events is $5.28 billion, or $5.46 per share

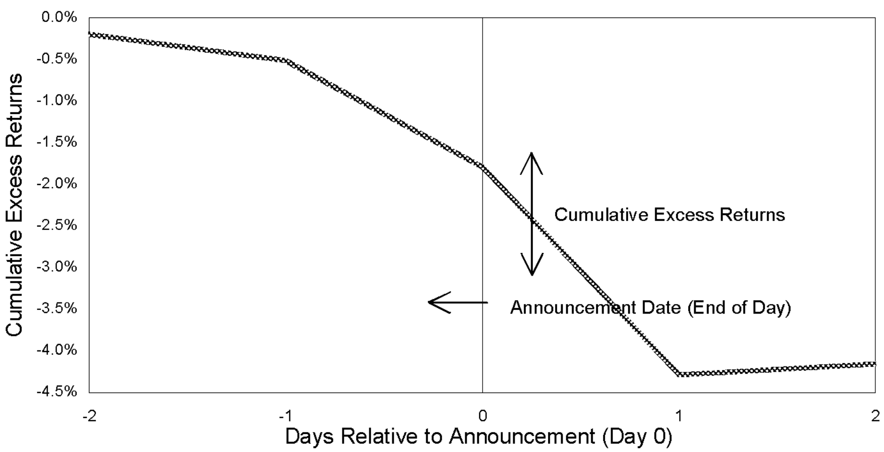
(a) Companies included the top third of the comparables ranked by total assets:
Delay in Filing: Veritas Software (VRTS), Navistar International (NAV), United Rentals (URI), Saks (SKS), DPL (DPL), BJ Services (BJS), King Pharmaceuticals (KG), UTStarcom (UTSI), Interpublic (IPG), Healthcare Realty Trust (HR), Nortel Networks (NT), Key Energy Services (KEGS), OM Group (OMG), Bally Total Fitness (BFT), Cardinal Health (CAH), Financial Industries (FNIN), Offshore Logistics (OLG), Krispy Kreme (KKD), Integrated Electrical Services (IES), Asyst Technologies (ASYT), Sourcecorp. (SRCP), MDC Partners (MDCAE)
Restatement: VRTS, NAV, URI, DPL, UTSI, IPG, MBIA (MBI), NT, OMG, BFT, KKD, ASYT, SRCP
Investigation: URI, SKS, KG, OMG, BFT, CAH, KKD, IES, SRCP

Stock price response to delay in filings

- The market's reaction to delay in filings announcements averages –4.15% over the 2 days before and after the announcement, while for Phineas it averages –2.45%. The difference of 1.70% is an estimate of the value savings in this particular event of the implied government guarantee

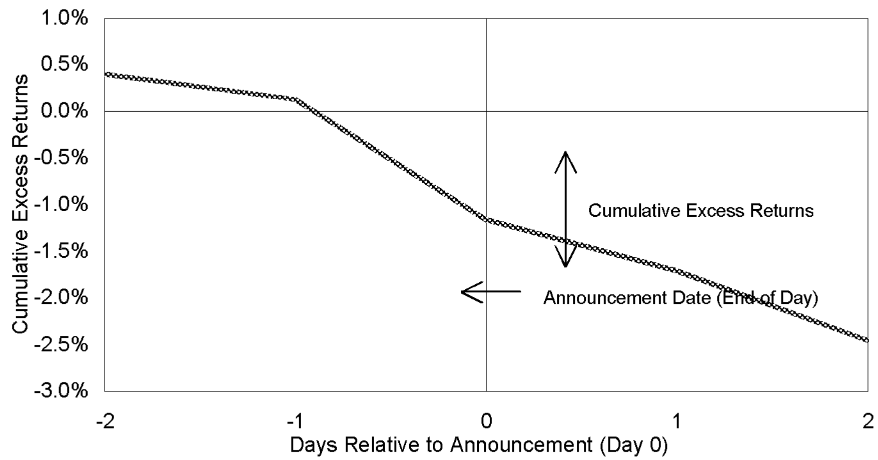
Cumulative excess returns around the announcement of delay in filings

Benchmark firms



Cumulative return of –4.15% from t-2 days to t+2 days

Phineas



Cumulative return of –2.45% from t-2 days to t+2 days

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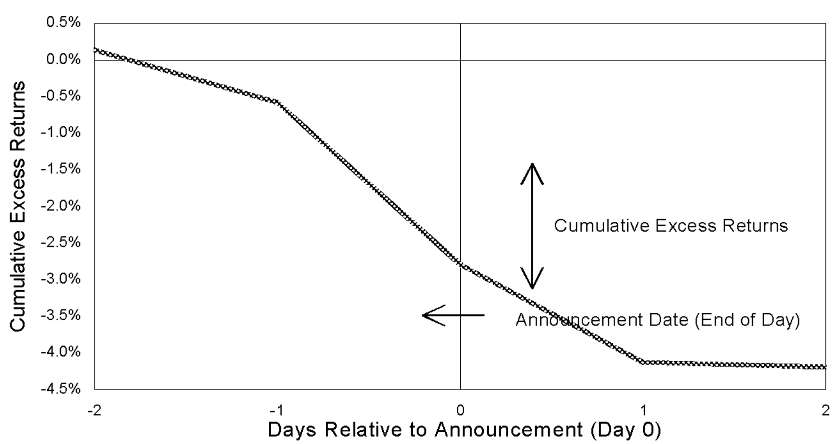
Stock price response to restatement of financials

- The market's reaction to restatement of financials announcements averages –4.2% over the 2 days before and after the announcement, while for Phineas it averages –0.98%. The difference of 3.21% is an estimate of the value savings in this particular event of the implied government guarantee

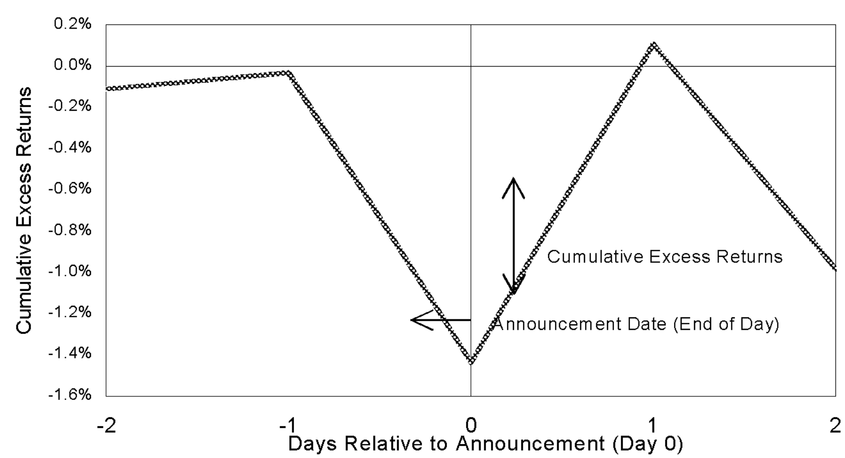
Cumulative excess returns of around the announcement of restatement

Benchmark firms



Cumulative return of –4.2% from t-2 days to t+2 days

Phineas



Cumulative return of -0.98% from t-2 days to t+2 days

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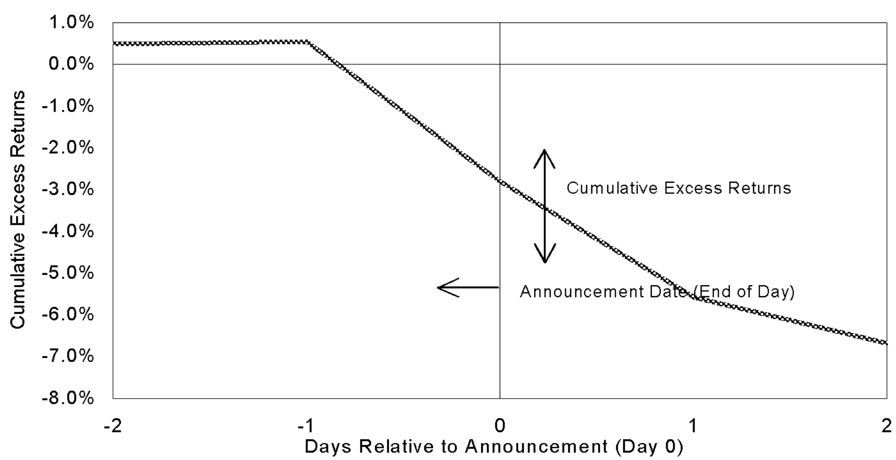
Stock price response to inquiry

- The market's reaction of benchmark sample firms to inquiry announcements averages –6.67% over the 2 days before and after the announcement, while for Phineas it averages –2.19%. The difference of 4.48% is an estimate of the value savings in this particular event of the implied government guarantee

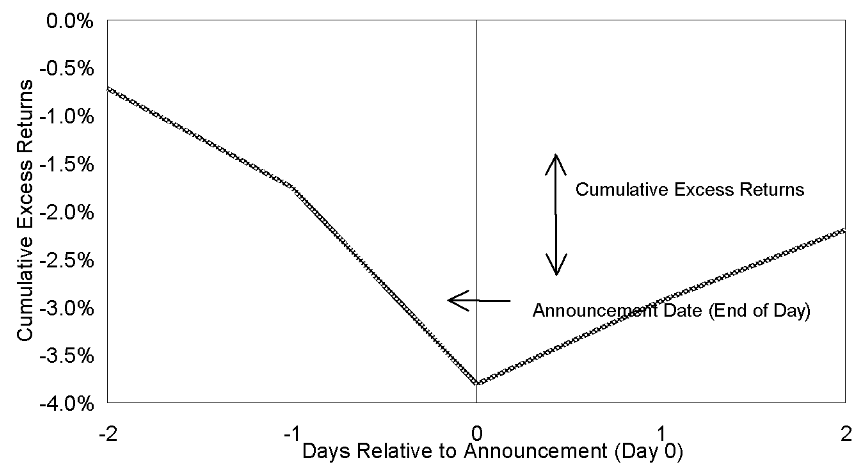
Cumulative excess returns of around the announcement of inquiry

Benchmark firms



Cumulative return of –6.67% from t-2 days to t+2 days

Phineas



Cumulative return of –2.19% from t-2 days to t+2 days

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Today's discussion

- Presentation Overview and Summary Recommendations
- Mortgage Market Trends
- Monoline Lifecycles
- Phineas Valuation
- **Citigroup Recommendations**

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Citigroup recommendations

Recommendation	Comments	Potential valuation expansion
Optimize value of Portfolio business		
1) Manage growth in portfolio to optimize returns 2) Structural alternative → Portfolio tracking stock	❖ Manage business to total returns on invested capital and not EPS growth ❖ Optimize investor interest by isolating the Portfolio's value and returns for investors that place the highest value on the resulting economic earnings stream ❖ Target investors who understand the portfolio business and are comfortable with volatile GAAP results	
New business opportunities		
1) Extension of the Guaranty business into new products	❖ Utilize existing core competency in evaluating mortgage credit risk to expand the guaranty business into non-traditional products (Jumbo[a], Alt-A, Sub-prime, HELOCs) ❖ Non-traditional markets have recently experienced significant growth. Expansion into these products should provide Phineas with more diversified sources of revenue and higher earnings growth	❖ ~ $6 billion / $5.72 per share
2) Asset management & risk analytics	❖ Profit from selling market-leading portfolio management skills to institutional investors including banks, REITs, pension funds, insurance companies, etc.	❖ ~ $2 billion / $2.31 per share
3) Mortgage insurance	❖ Leverage existing relationships with mortgage originators and leading understanding of mortgage credit risk to expand into mortgage insurance	❖ ~ $3 billion / $3.07 per share
Consider comprehensive investor relations program	❖ Use a variety of descriptive and quantitative tools to highlight how the businesses are managed to shareholder maximize value ❖ Focus on reinvigorating existing and new investors, and to reconciling GAAP results with management of the business and "core" results	

(a) Expanding the guaranty business into Jumbos would require an amendment to the charter.

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Summary impact of business initiatives

	Description	Impact

Status quo

- No additional business initiatives
- No additional equity requirement

	2006	2007	2008	2009
After-Tax ROACE	24.7%	25.8%	25.8%	25.1%
Dividend Payout Ratio (a)	73.3%	90.2%	81.7%	94.1%
YOY EPS Growth	10.6%	9.2%	3.6%	0.7%

	Total	Change in Value	Incremental Capital Req'd	NPV Per Share
Sum-of-the-Parts Value	$60,621	--	--	$62.63

Guarantee business

- Expansion into non-traditional mortgage guaranty business
- Guarantee fee of 30bp, losses of 5bp, admin expenses of 3bp
- Capital requirement of 59bp of book of business

	2006	2007	2008	2009
After-Tax ROACE	24.9%	26.1%	26.4%	26.1%
Dividend Payout Ratio (a)	70.2%	86.2%	74.0%	84.2%
YOY EPS Growth	11.6%	10.8%	6.8%	4.5%

	Total	Change in Value	Incremental Capital Req'd	NPV / Share (b)	Per share Impact
Sum-of-the-Parts Value	$66,157	$5,536	--	$68.35	$5.72

Asset management

- Expansion into asset management and risk analytics
- Fees of 28bp of AuM, costs of 18bp for asset management
- Fees of 6bp of AuM, costs of 3bp for risk analytics
- No additional capital requirement

	2006	2007	2008	2009
After-Tax ROACE	24.9%	26.0%	26.0%	25.5%
Dividend Payout Ratio (a)	73.4%	90.3%	81.9%	94.2%
YOY EPS Growth	11.2%	9.4%	3.8%	1.0%

	Total	Change in Value	Incremental Capital Req'd	NPV / Share (b)	Per share Impact
Sum-of-the-Parts Value	$62,852	$2,232	--	$64.94	$2.31

Mortgage insurance

- Disintermediation of mortgage insurers
- Guarantee fee of 70bp, losses of 30bp, admin expenses of 3bp
- Capital requirement of 59bp of book of business

	2006	2007	2008	2009
After-Tax ROACE	24.9%	26.1%	26.3%	26.0%
Dividend Payout Ratio (a)	71.9%	88.7%	79.0%	90.7%
YOY EPS Growth	11.5%	10.1%	5.5%	2.8%

	Total	Change in Value	Incremental Capital Req'd	NPV / Share (b)	Per share Impact
Sum-of-the-Parts Value	$63,595	$2,974	--	$65.70	$3.07

Source: Base earnings based on management projections.
(a) Assumes all net income in excess of that required to maintain minimum capital levels is paid to shareholders as a dividend.
(b) Assumes any shortfall in capital required that cannot be covered by retained earnings of all business lines is funded through the issuance of new shares of common equity in the market at the current share price.

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I. Optimize Value of Portfolio Business

Strategic Alternative: Alternative Management Philosophy

Assessing portfolio returns

Phineas Management Estimates

($ in billions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Actual for the year ended December 31					Projected for the year ended December 31				
Portfolio Balance (a)	$605	$717	$805	$914	$954	$828	$828	$828	$828	$828
Financial Leverage Assumption	2.05%	2.05%	2.05%	2.05%	2.05%	2.67%	2.67%	2.67%	2.67%	2.67%
Total Capital Required (Inc. Preferreds)	12.4	14.7	16.5	18.7	19.6	22.1	22.1	22.1	22.1	22.1
Common Equity (b)	10.1	12.4	13.8	14.6	10.5	14.3	15.7	16.0	17.0	17.0
($ in millions)										
Historical Total Returns										
Pretax Total Returns (c)	$484	$860	($1,126)	$7,863	$4,771	--	--	--	--	--
After-tax Total Returns (a)	324	571	(755)	5,122	3,131	--	--	--	--	--
Historical Core Earnings (d)										
Pretax Core Earnings (e)	$4,235	$5,378	$6,517	$6,674	$6,489	--	--	--	--	--
After-tax Core Earnings (a)	2,745	3,489	4,215	4,358	4,230	--	--	--	--	--
Projected "Core Earnings"										
Pretax Core Earnings	--	--	--	--	--	$4,970	$5,589	$6,271	$6,456	$6,325
After-tax Core Earnings	--	--	--	--	--	3,152	3,663	4,203	4,355	4,308
Profitability Ratios:										
Total Return On Equity (ROE) (a)	2.30%	4.00%	(5.00%)	35.20%	15.80%	--	--	--	--	--
Core Earnings / Avg. Common Equity (After-tax)	27.11%	28.15%	30.51%	29.78%	40.47%					
Core Earnings / Avg. Common Equity (Pretax)	--	--	--	--	--	40.14%	37.26%	39.60%	39.19%	37.30%
Core Earnings / Avg. Common Equity (After-tax)	--	--	--	--	--	25.46	27.20	28.91	28.61	27.23

N.B. 2004 returns as provided by management. Management projections from 06/2005.
(a) Provided by management.
(b) Assumes callable preferred equity is called at earliest call date.
(c) Calculated based on pre-tax ROAA of 0.08%, 0.12%, (0.14%), 0.86% and 0.50% in 2000 - 2004, respectively, provided by management.
(d) Pre-restatement.
(e) Calculated based on pre-tax ROAA of 0.70%, 0.75%, 0.81%, 0.73% and 0.68% in 2000 - 2004, respectively, provided by management.

Portfolio Comparable Companies

Institutions	LT Issuer Credit Rating S&P	LT Issuer Credit Rating Moody's	Equity/ Assets	10 Yr Median ROACE Pre-Tax	10 Yr Median ROACE After Tax	Total Annualized Return Since 1/1/2000 (a)
REIT: RMBS Portfolio Managers	NR	NR	8.5%	14.3%	14.3%	28.1%
REIT: CMBS Portfolio Managers	NR	NR	16.2	13.6	13.6	22.2
Banks with Mortgage Platform	A+	Aa3	9.1	30.0	19.0	13.8
Thrifts	A	A2	6.9	27.9	17.5	24.9
Fixed Income Asset Manager	NR	NR	NA	47.8	29.2	26.2

Source: IDD, SNL Datasource. Based on company filings as on 12.31.2004 and market data as on 07.11.2005.
N.B. REIT: RMBS Portfolio Managers data since 1999, REIT: CMBS Portfolio Managers data since 2000 and Fixed Income Asset Managers since 1997.
(a) Reflects share price appreciation plus reinvested dividends.

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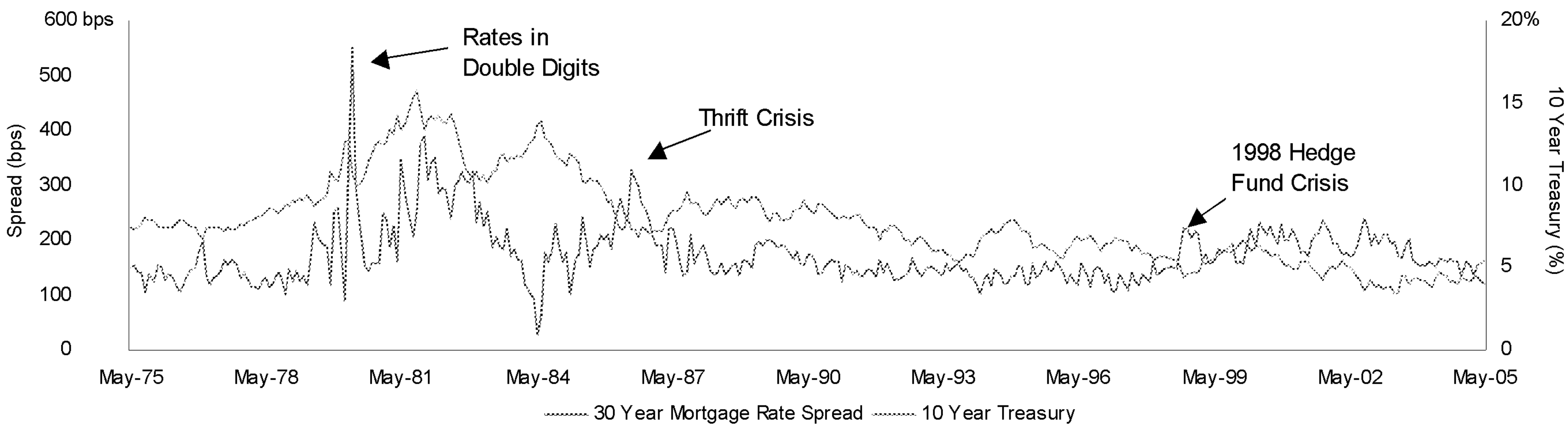
Alternative portfolio management strategy

- We used a regression analysis of Phineas' monthly purchase data from January 1998 to early 2005 to attempt to measure the statistical correlation of portfolio activity and movements in the option-adjusted spreads (OASs) of Phineas current coupon MBSs
  - We believe that in times of market stress Phineas can achieve its mission and its shareholder return goals by being an active buyer of mortgages; Phineas can be far more selective in normal markets
  - Throughout this period there seems to have been little correlation between portfolio activity and OAS spreads. However, we also observe that in certain periods of high market volatility an increase in Phineas portfolio has been followed by a tightening of spreads
- Market participants believe, however, that Phineas will be an active participant in the mortgage market in times of market stress, likely stabilizing market spreads
- As a result we recommend that Phineas only pursues trades that fulfill its cost of equity requirement of 7.7%. Phineas may also consider reducing its derivatives activity, which would reduce mark-to-market accounting adjustments and would lead to more transparent GAAP earnings. While a reduction in synthetic trades may reduce economic returns, investors may value a more transparent and predictable earnings stream with a higher multiple
- Selling into a Phineas MBS is easily the best alternative for lenders when there is a TBA market. Currently, Phineas includes non-prime loans (low FICOs, investor properties, alt documentation, etc) into its standard pools. We recommend that Phineas segregate such loans, and create TBA markets for investor loans, for low FICO loans, etc. This will provide an incentive for lenders to sell such pools into Phineas pools
- Phineas should lobby to have the designation of high cost areas updated regularly (as in the recent proposed House legislation), so that average size loans in places like CA (which accounts for a quarter of U.S. mortgage originations) are not excluded from Phineas pools

GSEs have positively impacted the mortgage market

30 year mortgage rate spread to 10 year treasury



- The wide fluctuations in mortgage spreads during periods of stress in the 1980s have been largely absent since the early 1990s. The widening during the hedge fund crisis in 1998 was much smaller, and has been largely reversed, despite huge refinancing waves from 2001 to 2004
- The prepayment option has become much more efficient during the last 20 years, which implies that nominal mortgage spreads should have widened (assuming that investors demand a constant OAS). The absence of such a widening could be explained through the presence of GSE activity

Limitations on analytical framework

- There are significant data limitations in connection with our analysis:

  1. We have only monthly purchase data, whereas OASs change constantly;
  2. There are variable and unpredictable lags between purchase decisions (when the market would react) and reported purchases

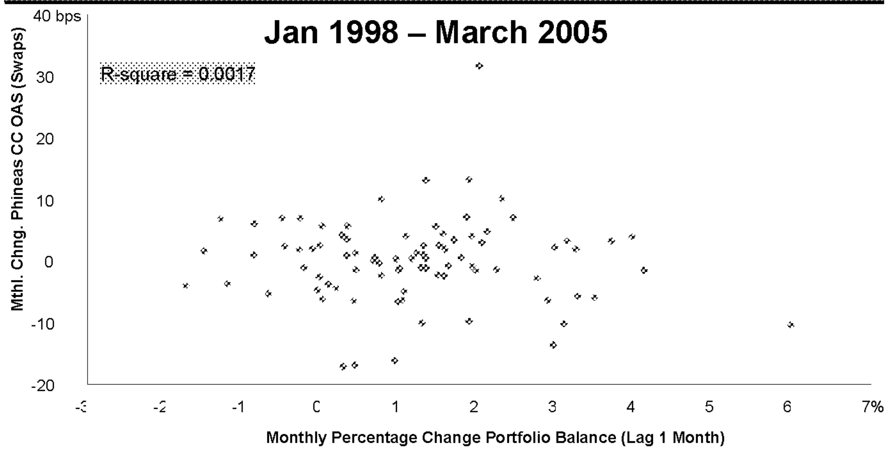
- An absence of statistical correlation does not imply an absence of a relationship between two variables. The relationship could be complicated and non-linear, and perhaps present only at certain times (such as the stressed markets of late 1998 and mid-2003)

- The data is from a period when there was already a substantial retained portfolio – we cannot extrapolate to a situation with no retained portfolio

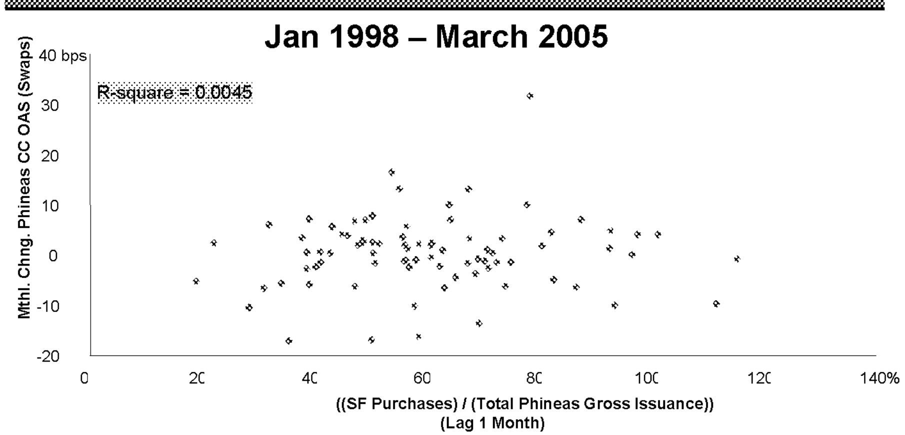
- The perception of the GSEs as opportunistic buyers likely has a psychological impact on MBS investors

We could find no statistical correlation between Phineas portfolio activity and OAS changes

Phineas MBS OAS vs % change in portfolio size



Phineas MBS OAS vs purchases/ issuance



- Our analysis uses two measures of portfolio activity: the *% change in the portfolio size* (top graph), and the *ratio of purchases to issuance* during a month (bottom graph)
- The lag refers to the assumed time between the decision to buy MBS and the transaction being reported as a purchase
- The results are similar for varying lag periods

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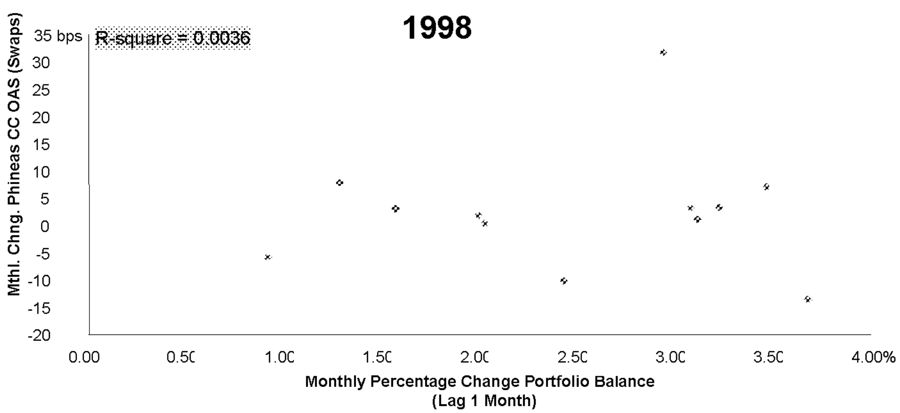
Analysis for just 1998 also shows no overall correlation, but Phineas purchase activity in the Q4 may have tempered OAS widening

Phineas MBS OAS vs % change in portfolio size



Phineas MBS OAS vs purchases/ issuance

- Analysis of just 1998 also shows little statistical correlation overall
- However, there are indications that Phineas activity impacted OASs in late 1998: from September 98 to January 99, the portfolio grew from \$375b to \$420b, and OASs, which had spiked in the fall, tightened almost 40bps over this period
- General market perception at the time was that the GSEs' buying tempered and reversed the widening caused by the hedge fund crisis
- Spreads of other fixed income products which had widened dramatically in the 2nd and 3rd quarter, such as corporate bonds, also tightened during the 4th quarter of 1998

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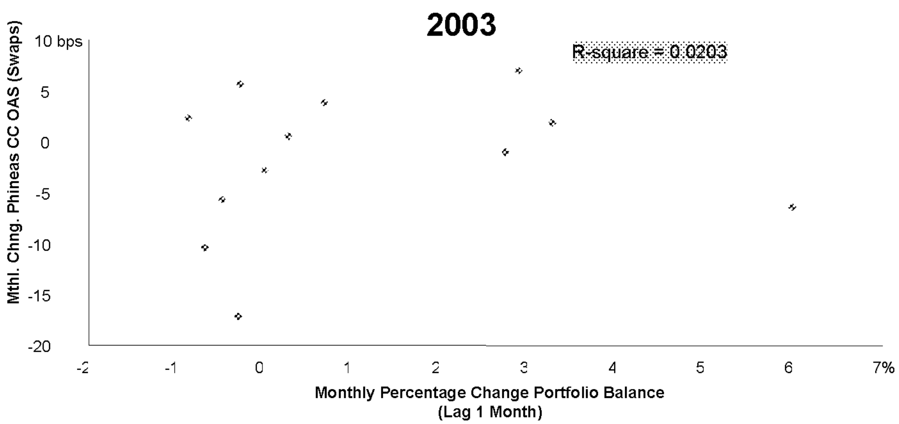
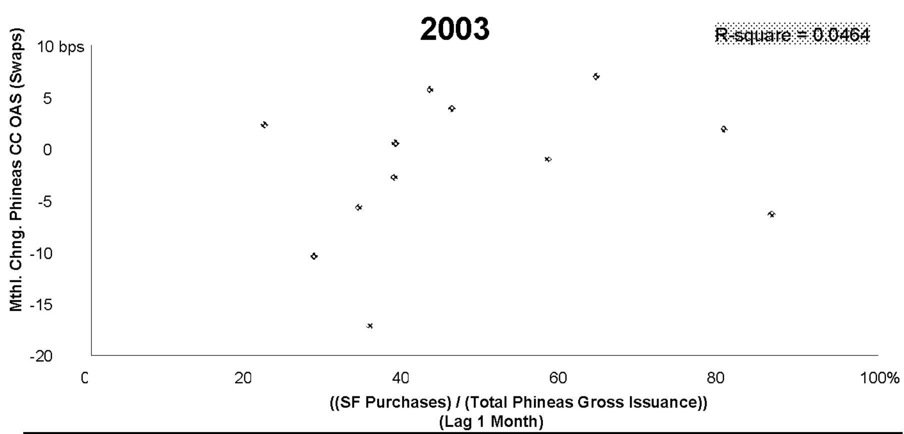
An analysis for 2003 similarly shows little overall correlation between portfolio activity levels and changes in current coupon OASs

Phineas MBS OAS vs % change in portfolio size



Phineas MBS OAS vs purchases/ issuance



- However, there are again signs of Phineas portfolio impact on OASs during a brief period of heavy growth: between July and September 2003, the portfolio increased from $838 billion to $917 billion, while OASs declined by about 20bps from August to October 2003

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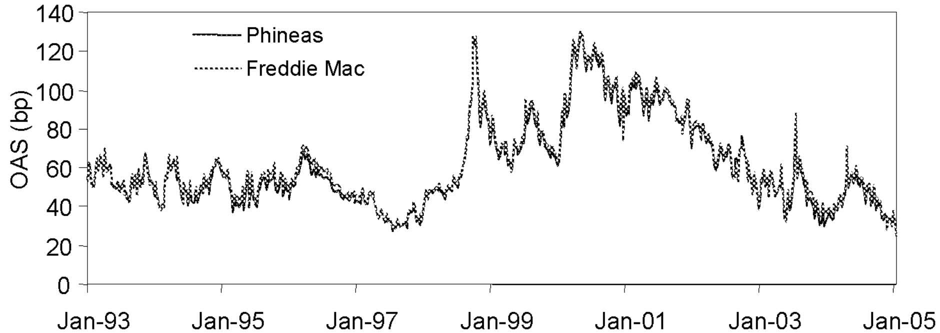
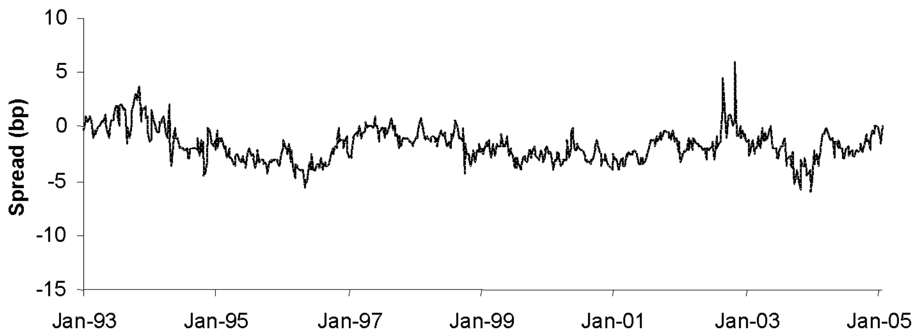
It is difficult to discern any relationship between relative current coupon OASs and portfolio growth rates

Phineas and Freddie Mac MBS OAS



Portfolio Size ($bn)				$419	$621	$812	$891

Phineas MBS OAS spread over Freddie Mac



- Phineas MBSs did become more attractive to investors during the first half of the 1990s, but portfolio growth rates were similar
- The relationship between Phineas and Freddie Mac current coupon OASs has been relatively stable since then

Structural Alternative: Tracking Stock

Structural alternative: Tracking stock

Tracking stock structure

Phineas

Guaranty Business

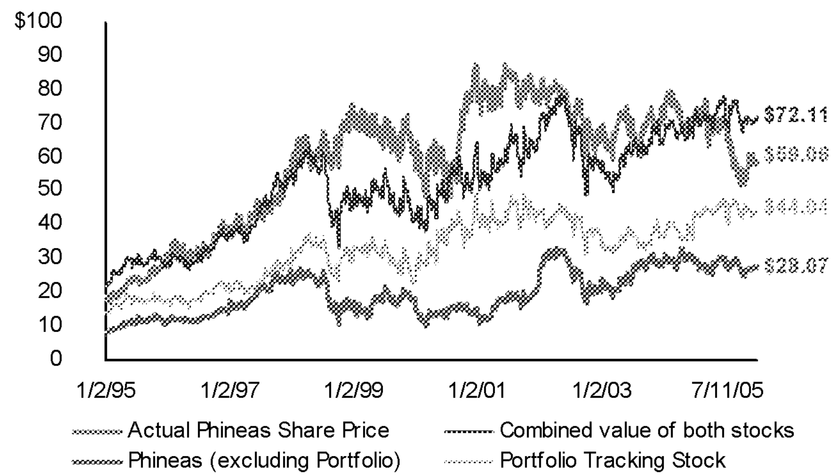
- Parent-General Division consisting mainly of guaranty business
- $2,152bn book of business
- $12.6bn equity
- $3.6bn net income
- 28.7% ROACE

Portfolio Business

- Tracking Stock
- Tracks earnings of portfolio business
- $905bn assets
- $19.6bn equity
- $3.1bn net income
- 25.0% ROACE

Note: 2004 financial data.

Hypothetical Phineas tracking stock performance



Benefits

- Potentially enhances Phineas' valuation as investors may more accurately value Phineas' portfolio business
- Maintains tax, legal and credit consolidation
- Retains Phineas' control and permits synergies within the group
- Enhances employee incentives by aligning compensation to the performance of the portfolio business
- Results in tax savings versus the sale of subsidiary stock
- Can be used as acquisition currency

Considerations

- Requires shareholder approval
- Adds complexity to capital structure and financial statements
- May be detrimental to a full separation as assets and liabilities remain with Phineas
- Can raise difficult corporate governance issues (i.e. proper capital allocation and distribution policy); heightens board responsibilities
- Requires significant time and resources to implement (about 6 months)

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II. New Business Opportunities

Phineas' competitive advantages to expand business

	Origination / Customer Relationship / Brand / Distribution			Portfolio Management			Credit Risk			Servicing		Insurance Underwriting		
	Direct	Branch	Wholesale	Mortgage	Interest Rate	Other	Mortgage	Bond	Other	Mortgage	Other	P&C	Title	Constraints?
Credit Guarantee / Conduit														
Non-conventional Mortgage			●	●			◕			◑				Charter
Other Consumer			◑			◑			○		○			Charter
Asset Management														
Conventional Mortgage			●	●	◕		●							Customer Conflict, HUD approval?
Sub-prime / Home Equity			◕	◕	◕	◕	◑							Customer Conflict, HUD approval?
Fixed Income			◕		◕	◔		○	○					HUD approval?
Mortgage Insurance			●		◕	○	◕							Charter, Customer Conflict
Title Insurance			◕		◕	○							◑	Charter
Financial Guarantor			◑		◕	○	◕	○	○					Charter
Mortgage Origination	○	○	◕				◕							Charter
Mortgage Servicing (outsourcing)			●							◔				HUD approval?
International Mortgage			◑	◑	◑		◑			◔				Charter
Banking	○	○	◔	●	◕	○	◕		○	◔	○			Charter
Mortgage REIT			◕	●	◕		◕			◔				Charter
Homeowner's Insurance	○	○	○		○	○						○		Charter

Phineas Relative Skill Level ● **High** ○ **Low**

New products

Current Customers

(Conforming/Non-Conforming Originators)

- Countrywide
- Washington Mutual
- Wells Fargo
- GMAC Mortgage (RFC)

Phineas

New Customers

(Non-Conforming Originators)

- Ameriquest
- First Franklin
- New Century
- Option One

Conforming → Non-Conforming

Conventional

2004 Issuance: $1,112b
(53%) YOY Growth
7% 5yr CAGR
80% issuance rate[a]

Jumbo

2004 Issuance: $233b
(14%) YOY Growth
12% 5yr CAGR
43% Issuance Rate

Alt-A

2004 Issuance: $159b
114% YOY Growth
68% 5yr CAGR
56% Issuance Rate

Sub-prime

2004 Issuance: $363b
86% YOY Growth
45% 5yr CAGR
56% Issuance Rate

HELOC

2004 Issuance: $36b
283% YOY Growth
60% 2yr CAGR
Low Issuance Rate

Opportunities

- Strong growth in the non-conforming market
- Provides ability to hedge downturn in one segment of the market
- Phineas can leverage relationships it has with current customers to tap into their non-conforming production
- Phineas has core competency in evaluating credit risk
- The formation of a liquid outlet for non-conforming loans may encourage more non-conforming originations from traditional lenders
- Success will be based on ability to compete on price versus private label markets
- Issuance rates low compared to conventional mortgages; Phineas has ability to expand its mission to non-conforming sector
- Supports mission goals

Considerations

- Increased credit risk; must charge higher fees in anticipation of higher losses
- Potential regulatory scrutiny as Phineas increases its risk profile; capital requirement may increase
- Jumbo loans not allowable under charter; participation in this segment would require regulatory approval
- Long-term strength of non-conforming market is questionable; space is crowded and margins have been shrinking
- Market competition has led to riskier products; lack of credit history limits Phineas' competitive advantage
- Most sub-prime loans are originated without mortgage insurance, so Phineas may incur significant credit enhancement fees

Source: Inside MBS & ABS.
(a) Issuance rate is the percentage of originations that are securitized.

New products valuation assumptions

- Business is operated within the GSE charter
- Non-conforming mortgage debt outstanding grows at 15% in 2006, 10% in 2007 and 5% in 2008-2009
- Issuance rate (securitizations / originations) is 50% in 2006, 55% in 2007, 60% in 2008 and 65% in 2009
- Phineas' market share of securitized non-conforming mortgage debt outstanding is 2.5% in 2006, 5.0% in 2007, 10% in 2008 and 15% in 2009
- Guaranty fees are 30bps in 2006-2009 and losses are 5bps over same period
- Administrative expenses, which include mission costs (franchise fee assumed to be captured in mission costs), are 3bps of 2006 non-conforming book of business, based upon similar management estimates for existing book of business. Administrative costs grow at 5% per annum from 2007-2009
- Corporate overhead allocation is 3bps of 2006 non-conforming book of business, based upon similar management estimates for existing book of business. Corporate overhead expense costs grow at 5% per annum from 2007-2009
- Income on capital and related interest income are calculated using the same assumptions as used for the existing business estimates

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Expansion into non-conforming products creates approximately $6 billion of incremental value

Assumptions

Valuation Date	31-Dec-2005	Risk Free Rate	4.34%
Terminal Multiple	10.0x	Market Risk Premium	5.00
Phineas Cost of Equity [(a)]	7.7%	Adjusted Beta	0.68
Shares Outstanding (m)	968	Marginal Tax Rate	27.0%
Diluted Shares Outstanding	968		

DCF Analysis

($ in millions)	2006	2007	2008	2009	CAGR
Pretax Income	$88	$245	$593	$1,030	
Income Taxes	(24)	(66)	(160)	(278)	
Net Income	$64	$179	$433	$752	127%
Capital Retention Requirement (b)	($228)	($323)	($711)	($891)	
Free Cash Flow	**($164)**	**($144)**	**($279)**	**($139)**	
Terminal Value				8,271	
Free Cash Flow/Net Income	(255.64%)	(80.86%)	(64.39%)	(18.52%)	

Incremental Equity Value per Share	$5.72

Source: Bloomberg. Based on projections and assumptions provided by Phineas management, adjusted by Citigroup.
(a) Calculated using the capital asset pricing model as of 07.11.05.
(b) Capital required calculated as 58.5 basis points against the single -family book of business.

Sensitivity Analysis

Cost of Equity	Terminal Multiple 8.0x	9.0x	10.0x	11.0x	12.0x	Implied Beta
5.7%	$4.82	$5.50	$6.18	$6.87	$7.55	0.28%
6.7	4.63	5.29	5.95	6.60	7.26	0.48
7.7	4.45	5.09	5.72	6.35	6.99	0.68
8.7	4.28	4.89	5.50	6.11	6.73	0.88
9.7	4.12	4.71	5.30	5.89	6.48	1.08

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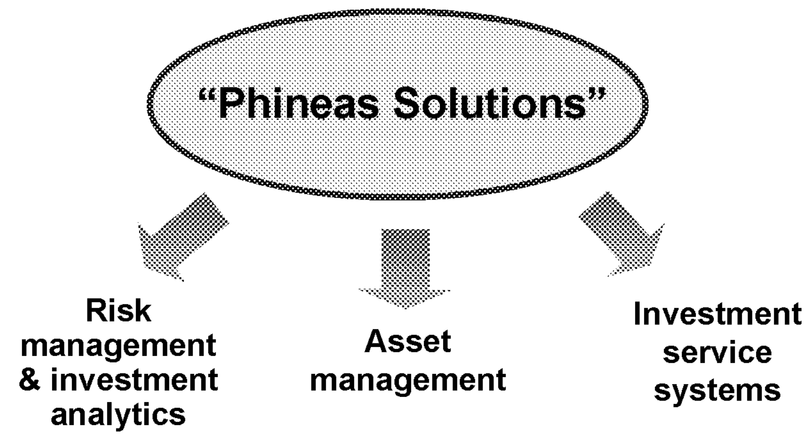
Asset management & risk analytics: "Phineas Solutions"

- Leverage excellence in mortgage analytics and transaction execution to manage balance sheet assets of banks, insurance companies, REITs, etc.
- Utilize best-in-class proprietary investment analytics and operating systems to offer investment tools, outsourcing and advisory services to these same institutional investors
- Fees are generated as a percentage of assets under management
- May be a conflict of interest with proprietary portfolio
- Leverage strong "Brand" as mortgage analytics experts



Phineas is a compelling solution for clients

- Unmatched, disciplined investment process excellence:
  - Relative value sector/sub-sector rotation and security selection
  - Rigorous quantitative security and portfolio valuations
  - Intense fundamental credit analysis
  - Portfolio duration controlled within a narrow band around a benchmark index
  - Experienced portfolio managers
- International demand for asset management is strong and offers a tremendous growth opportunity

Risk analytics is also a thriving market

- Likely to be well received by Wall Street → has been identified as an, "… excellent play on the disintermediation of risk management by the capital markets away from banks, corporations, pension plans and insurance companies"
- Risks moving into the capital markets is driving compelling growth and timing is ideal due to flattening of yield curve → banks and other clients will likely seek assistance in transitioning their balance sheet assets
- Other participants in this space have experienced tremendous growth (e.g. BlackRock 2003 – 2004 revenue growth of 37%)
- Phineas benefits from significant economies of scale and barriers to entry

Source: Company filings and Wall Street research.

Asset and risk management assumptions

- Business is operated within the GSE charter
- No additional required capital

Asset Management

- Phineas' market share of 2006E MBS managed by institutional asset managers is 3% in 2006 and assets under management (AUM) grow at 50% per year through 2009, reaching 8% market share in 2009
- Fees are a percentage of AUM – 28bps – and are based on the median of all 2004 institutional MBS asset managers
- Operating margin of 35% is based on asset management industry

Risk Analytics

- Phineas assumed to capture 3% of relevant mortgage debt outstanding[a] 2006
- Fair value of assets managed by Phineas Solutions grows at 40% per year in 2007 then 30% through 2009, based on industry growth rates. 2009 share of MDO is projected at 5%
- Fees are a percentage of AUM – 6 bps – based on Citigroup estimates
- Operating margin of 50% is assumed given Phineas' scale and low incremental costs to start up and operate the business

(a) Single and multi-family projected MDO, less GSE portfolio balances (which are assumed to equal current May/05 balances).

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Expansion into asset and risk management creates over $2 billion of incremental value

Assumptions

Valuation Date	31-Dec-2005	Rf	4.34%
Terminal Multiple (a)	19.6x	Market Risk Premium	5.00
Phineas Cost of Equity (b)	7.7%	Beta	0.68
Shares	968	Tax Rate	27.0%
Growth in FCF 2010	38.09%		

DCF Analysis

Revenues	2006	2007	2008	2009
Pretax Income	$55	$79	$106	$145
Income Taxes	(15)	(21)	(29)	(39)
Franchise Fee	(2)	(3)	(4)	(5)
Net Income	$38	$54	$74	$101
Capital Retention Requirement	$0	$0	$0	$0
Free Cash Flow	**$38**	**$54**	**$74**	**$101**
Terminal Value				**$2,716**
Free Cash Flow / Net Income	**100%**	**100%**	**100%**	**100%**

Incremental Equity Value	**$2,232**
Incremental Equity Value Per Share	**$2.31**
Terminal Value As A % Of Equity Value	**105.0%**

Source: Mobius; Federal Reserve.
(a) Based on BLK's P / 2006E ratio as of 07.11.2005.
(b) Calculated using the capital asset pricing model.

Sensitivity Analysis

Cost of Equity	Terminal Multiple 17.6x	18.6x	19.6x	20.6x	21.6x
5.7%	$2.25	$2.37	$2.48	$2.60	$2.71
6.7	2.17	2.28	2.39	2.50	2.61
7.7	2.09	2.20	2.31	2.41	2.52
8.7	2.02	2.12	2.23	2.33	2.43
9.7	1.95	2.05	2.15	2.25	2.35

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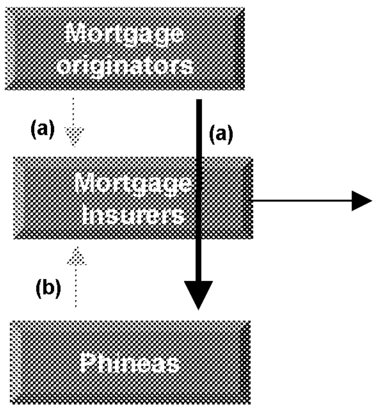
Mortgage insurance



(a) Originators will be able to sell loans directly to Phineas without using mortgage insurers as intermediaries

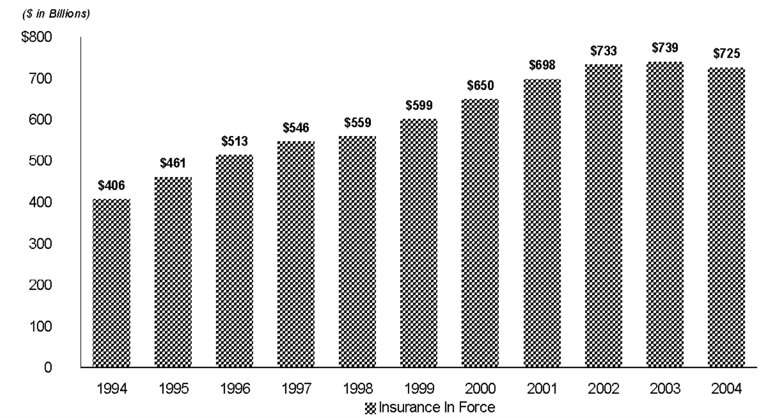
(b) Phineas no longer has to use mortgage insurers on loans with LTVs greater than 80%

2004 MI Market Share

Insurer	Market Share	Risk in Force
MGIC	23.2%	$168
PMI	18.7	136
Radian	15.9	115
AIG	13.5	98
Genworth	13.5	98
Republic	10.3	75
Triad	4.8	35

Challenging market environment

- Growth in net insurance in force has been stagnant since 2000



Opportunities

- Ability to leverage existing relationships with mortgage originators
- Phineas can utilize core competency in evaluating mortgage credit risk
- Vertical integration allows disintermediation of mortgage insurers; elimination of third-party may reduce originator costs and lead to lower mortgage rates
- IBES analysts predict long-term growth of approx. 12%
- Historical mortgage insurer forward P/E multiples have ranged from 6.0-13.0x and are currently at 8.6x
- Attractive margins – mortgage insurer guaranty fees are approximately 70bps versus losses of 30bps

Considerations

- Industry growth has slowed in 2004; business is highly cyclical, tied to growth of conforming originations
- As such, entrance into mortgage insurance does not provide a hedge against Phineas' current business
- May not be allowable under charter; participation may require regulatory approval
- Increased risk profile due to first loss position may increase capital requirement
- Industry is comprised of well-established players who have maintained consistent market shares
- Growth of sub-prime market and new products (piggyback seconds) marginalizing mortgage insurers
- May endanger relationships with originators with captive re-insurers

Source: Inside MBS & ABS.

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Mortgage insurance valuation assumptions

- Business is operated within the GSE charter
- Single family mortgage debt outstanding based upon Phineas' estimates
- Mortgage insurer penetration rate is 9% 2006-2009
- Phineas' market share of insured mortgage debt outstanding is 2.5% in 2006, 5.0% in 2007, 10% in 2008 and 15% in 2009
- Guaranty fees are 70bps in 2006-2009 and losses are 30bps over the same period
- Administrative expenses, which include mission costs (franchise fee assumed to be captured in mission costs), are 3bps of 2006 mortgage insurance book of business, based upon similar management estimates for existing book of business. Administrative costs grow at 5% per annum from 2007-2009
- Corporate overhead allocation is 3bps of 2006 mortgage insurance book of business, based upon similar management estimates for existing book of business. Corporate overhead expense costs grow at 5% per annum from 2007-2009
- Income on capital and related interest income are calculated using the same assumptions as used for the existing business estimates

Expansion into mortgage insurance creates approximately $3 billion of incremental value

Assumptions

Valuation Date	31-Dec-2005	Risk Free Rate	4.34%
Terminal Multiple	8.5x	Market Risk Premium	5.00
Phineas Cost of Equity [a]	7.7%	Adjusted Beta	0.68
Shares Outstanding (m)	968	Marginal Tax Rate	27.0%
Diluted Shares Outstanding (m)	968		

DCF Analysis

($ in millions)	2006	2007	2008	2009
Pretax Income	$74	$170	$377	$611
Income Taxes	(20)	(46)	(102)	(165)
Net Income	$54	$124	$275	$446
Capital Retention Requirement (b)	($112)	($127)	($272)	($307)
Free Cash Flow	**($58)**	**($3)**	**$3**	**$139**
Terminal Value				3,941
Free Cash Flow/Net Income	(108.42%)	(2.48%)	1%	31%

Incremental Equity Value per Share **$3.07**

Source: Bloomberg. Based on Phineas estimates, adjusted by Citigroup.

(a) Calculated using the capital asset pricing model as of 07.11.05.

(b) Capital required calculated as 58.5 basis points against the single -family book of business.

Sensitivity Analysis

	Terminal Multiple					
Cost of Equity	**6.5x**	**7.5x**	**8.5x**	**9.5x**	**10.5x**	**Implied Beta**
5.7%	$2.55	$2.93	$3.32	$3.70	$4.08	**0.28%**
6.7	2.45	2.82	3.19	3.56	3.93	**0.48**
7.7	2.36	2.72	3.07	3.43	3.78	**0.68**
8.7	2.27	2.62	2.96	3.30	3.64	**0.88**
9.7	2.19	2.52	2.85	3.18	3.51	**1.08**

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III. Consider Comprehensive Investor Relations Program

Phineas should seek an optimal level of disclosure

- **In light of recent accounting issues as well as inherent complexities of Phineas' business, Phineas should take the following steps to restore investor relations**
- **Quarterly earnings release statements**
  - Include discussion connecting fair value and core earnings and how management runs the business
  - Extensive discussion of changes in fair value and core earnings (include non-restated periods)
  - Define non-GAAP operating measure
- **Investor day discussion**
  - Describe mission / charter
  - Outline and describe key business lines
    - How does Phineas make money?
      - Business description
      - Steps in the process
    - What are the key risks?
  - Discuss management philosophy
    - Growth / mission
    - Risk management
  - Credit risk management
    - Underwriting guidelines
    - Collateral protection
    - Diversification
  - Interest rate risk management
    - Define risks – convexity, duration, prepayment, etc.
    - How does active management of duration gap maximize shareholder value?
    - Chart aligning key risks with primary hedge techniques (includes resecuritization), including summary description of payout in various interest rate scenarios
    - Define duration gap

Phineas should seek an optimal level of disclosure (cont'd)

- **Financial disclosure (purely objective and analytical discussion)**
  - Required accounting disclosures
    - Simple description of how Phineas conducts business
    - Restated financial statements and footnotes
      - Include in a series of tables or charts
    - New accounting policies
    - Other information required by accounting / legal
  - Comparison of pre- and post restatement results for 2002, 2003, and 2004
    - Detailed accounting errors and other changes
      - Description of each category
      - Reconciliation by category
    - Line-by-line statement income statement reconciliation
    - Qualitative and quantitative
  - Core earnings or the non-GAAP measure discussion
    - Description of how core earnings non-GAAP measure is calculated
    - Effect of the restatement on core earnings non-GAAP measure
  - Key interest rate risk metrics
    - Definitions
    - Effect of the restatement on key interest rate metrics

Appendix

Valuation

Comparative market statistics

Institution	Ticker	7/11/2005 Market Cap	Forward 2006 P/E	Price / Book[(a)]	2006 PEG	Current Dividend Yield [(b)]
Government Sponsored Enterprises						
Phineas		$57,164	8.3x	2.2x	83%	1.8%
Freddie Mac	FRE	$45,529	9.4x	1.7x	99%	1.8%
Mortgage Banks						
Countrywide Financial Corp.	CFC	$23,067	8.7x	2.2x	73%	1.4%
Indymac Bancorp Inc.	NDE	2,655	8.9	2.1	59	3.4
PHH Corp.	PHH	1,408	NA	0.7	NA	NM
Depositories w/ Mortgage Platforms						
Bank Of America Corp.	BAC	$181,839	10.2x	1.8x	113%	4.0%
Wells Fargo & Co.	WFC	104,159	12.2	2.8	111	3.1
National City Corp.	NCC	22,425	10.8	1.8	135	4.0
North Fork Bancorporation	NFB	13,989	11.4	1.6	106	3.0
Multi-Family Banks						
New York Community Bancorp Inc.	NYB	$4,902	12.0x	NM	120%	14.7%
Independence Community Bank Corp.	ICBC	3,110	12.0	1.4	120	7.6
Thrifts						
Washington Mutual Inc.	WM	$35,895	10.3x	1.7x	103%	4.5%
Golden West Financial Corp.	GDW	20,223	12.3	2.8	98	0.4
Financial Guarantors						
MBIA Inc.	MBI	$8,479	10.0x	1.3x	80%	1.8%
Ambac Financial Group	ABK	7,682	10.1	1.5	75	0.7
Assured Guaranty Ltd.	AGO	1,741	10.2	1.2	79	0.5
Mortgage Insurers						
MGIC Investment Corp.	MTG	$6,153	9.7x	1.5x	81%	0.5%
Radian Group Inc.	RDN	4,146	8.4	1.2	70	0.2
PMI Group Inc.	PMI	3,703	8.6	1.2	71	0.5
Residential MBS REITs						
Annaly Mortage Mgmt Inc.	NLY	$2,131	10.2x	1.4x	203%	10.2%
Redwood Trust Inc.	RWT	1,313	7.8	1.5	97	15.6
MFA Mortgage Investments Inc.	MFA	592	8.8	0.9	195	10.0
Anworth Mtg Asset Corp.	ANH	467	8.3	1.0	NA	11.0
Luminent Mortgage Capital	LUM	417	8.3	1.0	NA	13.2
Commercial MBS REITs						
Newcastle Investment Corp.	NCT	$1,323	9.9x	130.0x	105%	8.3%
Anthracite Capital Inc.	AHR	639	9.5	1.4	191	9.3
Capital Trust Inc.	CT	522	12.6	1.7	158	6.4

Source: IDD, SNL Datasource.

(a) Book Value as on December 31, 2004. Phineas book value equals $35.5 billion total equity less $9.108 billion in preferred shares, per Phineas management.

(b) Last quarter annualized.

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Whole company public market valuation

($ in millions, except per share data)

	11-Jul-05		Price/			2006E	2006E
	Market Cap.	Price	2006E	Book Value	LT Growth Rate	PEG Ratio	Dividend Yield
Mortgage Banks							
Countrywide Financial Corporation (CFC)	$23,067	$39.25	8.7x	2.2x	12.0%	73%	1.6%
	Phineas Reference [a]		**$6.79**	**$26,392**	**10.0%**		
	Implied Valuation per Share [b]		**$59.25**				
Mortgage Insurers							
MGIC Investment Corporation (MTG)	$6,153	$65.20	9.7x	1.5x	12.0%	81%	0.5%
Radian Group Inc. (RDN)	4,146	48.12	8.4	1.2	12.0	70	0.2
PMI Group, Inc. (PMI)	3,703	39.60	8.6	1.2	12.0	71	0.5
	Phineas Reference [a]		**$6.79**	**$26,392**	**10.0%**		
	Implied Valuation per Share [b]		**$58.16**				
Thrifts							
Washington Mutual, Inc. (WM)	$35,895	$41.20	10.3x	1.7x	10.0%	103%	5.1%
Golden West Financial Corporation (GDW)	20,223	65.82	12.3	2.8	12.5	98	0.5
	Phineas Reference [a]		**$6.79**	**$26,392**	**10.0%**		
	Implied Valuation per Share [b]		**$76.76**				
GSEs							
Freddie Mac (FRE)	$45,529	$66.13	9.4x	1.7x	9.5%	99%	2.3%
	Phineas Reference [a]		**$6.79**	**$26,392**	**10.0%**		
	Implied Valuation per Share [b]		**$63.71**				

Source: Market Data from IDD and SNL. Earnings and dividend estimates for public companies from IBES.
(a) After-Tax Operating Earnings based on IBES estimates. Phineas' book value based on management estimates.
(b) Implied valuation based on median multiples and 967.90mm shares outstanding.
N.B. Market data as of July 11, 2005.

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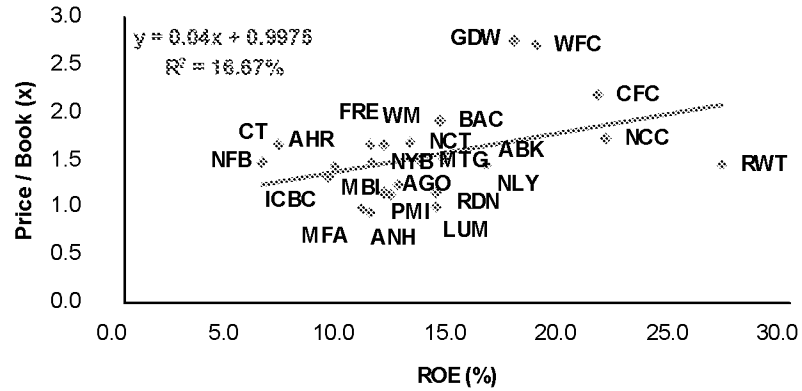
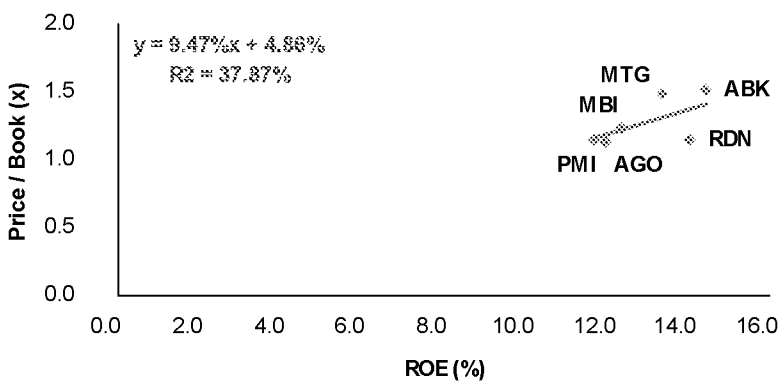
Price to book vs ROE analysis for whole company, single family and multi family

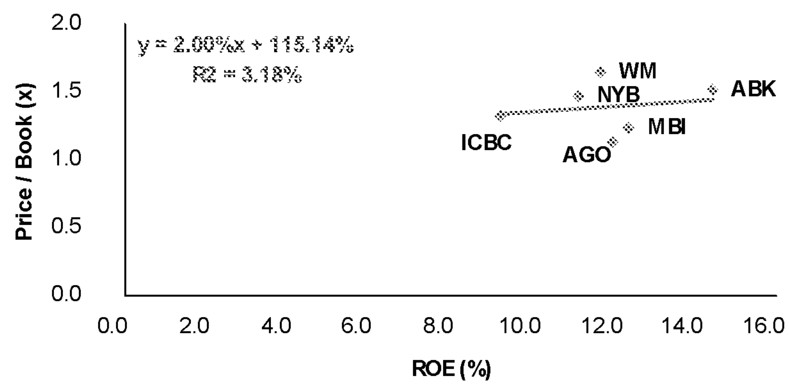
Whole Company



Single Family



Multi Family



Note: Current Price to Book regressed against 2006E ROE.

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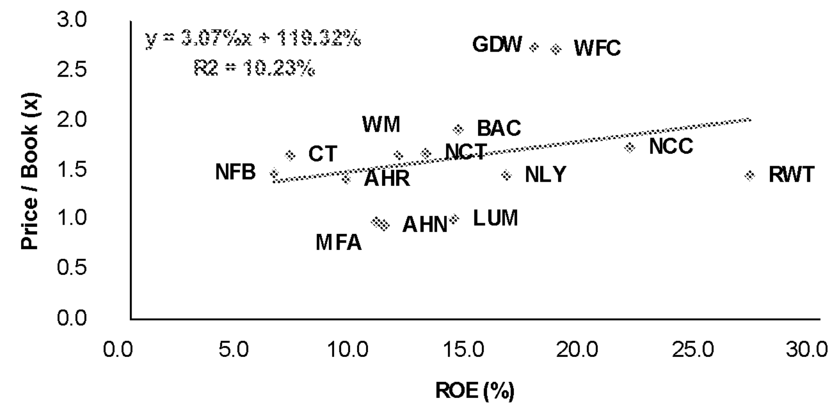
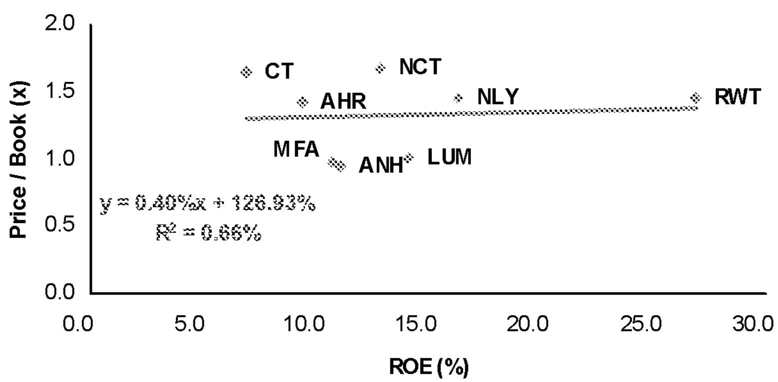
Price to book vs ROE analysis for portfolio

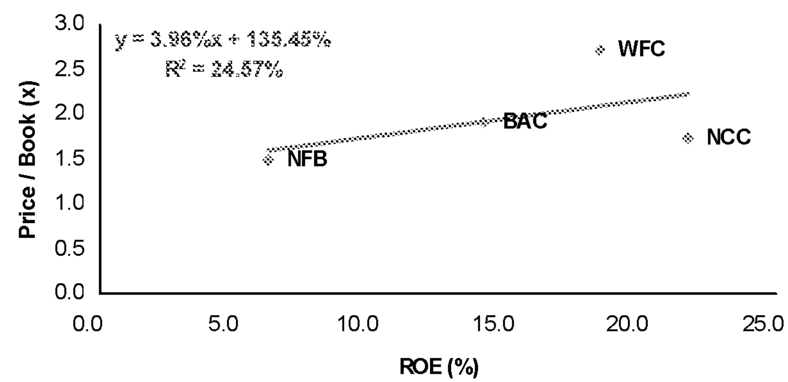
Portfolio – Current Configuration



Without Charter - REIT



Without Charter - Bank



Note: Current Price to Book regressed against 2006E ROE.

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Whole company discounted cash flow

Assumptions

Valuation Date	31-Dec-2005	Risk Free Rate	4.34%
Terminal Multiple	10.0x	Market Risk Premium	5.00
Phineas Cost of Equity [a]	7.7%	Beta	0.68
Projected Long Term Growth	5.0	Marginal Tax Rate	27.0%
Shares Outstanding (m)	968	Franchise Fee (After-tax)	5.0

DCF Analysis

($ in millions)	2006	2007	2008	2009
Projected EPS [b]	$7.15	$7.51	$7.88	$8.28
Implied Net Income	6,921	7,267	7,630	8,011
Franchise Fee (5% After-tax)	(346)	(363)	(381)	(401)
Net Income	$6,574	$6,903	$7,248	$7,611
Capital Retention Requirement [c]	(1,837)	(1,811)	(1,826)	(1,837)
Free Cash Flow	$4,737	$5,092	$5,422	$5,773
Terminal Value				80,113
Free Cash Flow/Net Income	68%	70%	71%	72%

Equity Value per Share	$79.41

Source: Bloomberg and IBES. Market data as of July 11, 2005. Capital projections based on projections and assumptions provided by Phineas management.

(a) Calculated using the capital asset pricing model.

(b) 2007-2009 EPS based on growth rate of 5.0%.

(c) Capital required calculated as 58.5 basis points against each of the single and multi-family books of business and 2.05% against assets in the portfolio.

Sensitivity Analysis

	Terminal Multiple					
Cost of Equity	8.0x	9.0x	10.0x	11.0x	12.0x	Implied Beta
5.7%	$71.81	$78.43	$85.06	$91.68	$98.30	0.28%
6.7	69.42	75.79	82.17	88.55	94.92	0.48
7.7	67.13	73.27	79.41	85.56	91.70	0.68
8.7	64.94	70.86	76.78	82.70	88.62	0.88
9.7	62.84	68.55	74.25	79.96	85.67	1.08

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Single family: Public market valuation

($ in millions, except per share data)

	11-Jul-05		Price/			2006E	2006E
	Market Cap.	Price	2006E	Book Value	LT Growth Rate	PEG Ratio	Dividend Yield
Financial Guarantors							
MBIA, Inc. (MBI)	$8,479	$62.62	10.0x	1.3x	12.5%	80%	1.8%
Ambac Financial Group (ABK)	7,682	70.94	10.1	1.5	13.5	75	0.7
Assured Guaranty Ltd (AGO)	1,741	23.22	10.2	1.2	13.0	79	0.5
	Single Family Reference (a)		$3.03	$12,285	5.0%		
	Implied Valuation per Share (b)		$30.50				
Mortgage Insurers							
MGIC Investment Corp. (MTG)	$6,153	$65.20	9.7x	1.5x	12.0%	81%	0.5%
Radian Group, Inc. (RDN)	4,146	48.12	8.4	1.2	12.0	70	0.2
PMI Group, Inc. (PMI)	3,703	39.60	8.6	1.2	12.0	71	0.5
	Single Family Reference (a)		$3.03	$12,285	5.0%		
	Implied Valuation per Share (b)		$25.95				

Source: Market Data from IDD and SNL. Earnings and dividend estimates for public companies from IBES.
(a) After-Tax Operating Earnings and Book Value based on company projections.
(b) Implied valuation based on median multiples and 967.90mm shares outstanding.
N.B. Market data as of July 11, 2005.

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Single family discounted cash flow – current configuration

Assumptions

Valuation Date	31-Dec-2005	Risk Free Rate	4.34%
Terminal Multiple	9.0x	Market Risk Premium	5.00
Phineas Cost of Equity [(a)]	7.7%	Adjusted Beta	0.68
Shares Outstanding (m)	968	Marginal Tax Rate	27.0%

DCF Analysis

($ in millions)	2006	2007	2008	2009
Pretax Income	$4,019	$4,127	$4,283	$4,401
Income Taxes	(1,085)	(1,114)	(1,157)	(1,188)
Net Income	$2,934	$3,013	$3,127	$3,213
Capital Retention Requirement [(b)]	($410)	($382)	($394)	($406)
Free Cash Flow	**$2,524**	**$2,630**	**$2,733**	**$2,807**
Terminal Value				29,912
Free Cash Flow/Net Income	86%	87%	87%	87%

Equity Value per Share	**$32.11**

Source: Bloomberg. Based on projections and assumptions provided by Phineas management.
(a) Calculated using the capital asset pricing model.
(b) Capital required calculated as 58.5 basis points against the single -family book of business.

Sensitivity Analysis

Cost of Equity	Terminal Multiple 7.0x	8.0x	9.0x	10.0x	11.0x	Implied Beta
5.7%	$28.83	$31.58	$34.33	$37.07	$39.82	**0.28%**
6.7	27.90	30.55	33.19	35.84	38.48	**0.48**
7.7	27.01	29.56	32.11	34.66	37.20	**0.68**
8.7	26.16	28.61	31.07	33.53	35.98	**0.88**
9.7	25.34	27.71	30.08	32.45	34.81	**1.08**

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Single family discounted cash flow as a private company

Assumptions			
Valuation Date	31-Dec-2005	Risk Free Rate	4.34%
Terminal Multiple	9.0x	Market Risk Premium	5.00
Phineas Cost of Equity [(a)]	9.7%	Adjusted Beta	1.07
Shares Outstanding (m)	968	Marginal Tax Rate	31.0%
Diluted Shares	1,019	Franchise Fee (After-tax)	5.0

DCF Analysis

($ in millions)	2006	2007	2008	2009
Pretax Income	$3,384	$3,017	$2,482	$1,974
Income Taxes	(1,049)	(935)	(769)	(612)
Franchise Fee (5% After-tax)	117	104	86	68
Net Income	$2,452	$2,186	$1,798	$1,430
Capital Retention Requirement (b)	$23	$1,464	$1,284	$1,125
Free Cash Flow	**$2,475**	**$3,650**	**$3,082**	**$2,555**
Terminal Value				13,257
Free Cash Flow/Net Income	101%	167%	171%	179%

Equity Value per Share	$19.16
Equity Value Per Share Assuming Dilution From New Shareholders (c)	$18.21

Source: Bloomberg. Based on projections and assumptions provided by Phineas management.
(a) Calculated using the capital asset pricing model.
(b) Capital required calculated as 66.4 basis points against the single -family book of business.
(c) Assumes 50.852mm common shares are issued at market price to meet the additional capital requirement for the portfolio business.

Sensitivity Analysis

Cost of Equity	Terminal Multiple 7.0x	8.0x	9.0x	10.0x	11.0x	Implied Beta
7.7%	$17.16	$18.23	$19.31	$20.38	$21.46	**0.67%**
8.7	16.67	17.71	18.75	19.78	20.82	**0.87**
9.7	16.21	17.21	18.21	19.21	20.20	**1.07**
10.7	15.76	16.73	17.69	18.65	19.62	**1.27**
11.7	15.33	16.26	17.19	18.12	19.05	**1.47**

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Single family P&L – current configuration

SINGLE FAMILY P&L

P&L Drivers ($Billion)	2004	2005	2006	2007	2008	2009	CAGR 05-09
		Projected for the year ended December 31,					
Ending SF MDO (a)	$7,213	$7,923	$8,515	$9,089	$9,702	$10,356	6.9%
Ending Fannie Mae SF BOB (b)	2,042	2,030	2,100	2,165	2,233	2,302	3.2
Average Book of Business	2,019	2,036	2,065	2,133	2,199	2,267	2.7
Required Regulatory Capital (c)	$12	$12	$12	$13	$13	$13	3.2

P&L ($Million)

Revenues	2004	2005	2006	2007	2008	2009	CAGR 05-09
G-Fee Income (Includes Allocated G-Fees) (d)	$4,452	$4,686	$4,839	$5,067	$5,282	$5,492	4.0%
Net Fees/Other Inc. (CE expenses, Technology Fees) (e)	108	107	111	114	118	122	3.2
Total Non Interest Income	$4,560	$4,794	$4,950	$5,182	$5,399	$5,614	4.0%
Inc. on Capital (f)	$806	$430	$509	$538	$566	$595	8.5%
Other NII (Float, Stopped Interest, Other interest inc/exp) (g)	140	75	88	93	98	103	8.5
Total Interest Income	$947	$504	$598	$631	$664	$698	8.5%
Total Revenues	**$5,506**	**$5,298**	**$5,548**	**$5,813**	**$6,064**	**$6,312**	**4.5%**
Expenses							
Credit Loss Expense (h)	$134	($333)	($352)	($450)	($483)	($548)	13.3%
Administrative Expenses (i)	(533)	(560)	(588)	(617)	(648)	(681)	5.0
Corporate Expense Allocation (i)	(534)	(561)	(589)	(618)	(649)	(682)	5.0
Total Expenses	**($934)**	**($1,454)**	**($1,529)**	**($1,686)**	**($1,780)**	**($1,911)**	**7.1%**
Pretax Income	**$4,572**	**$3,844**	**$4,019**	**$4,127**	**$4,283**	**$4,401**	**3.4%**
Tax (j)	(1,235)	(1,038)	(1,085)	(1,114)	(1,157)	(1,188)	3.4
Net Income	**$3,338**	**$2,806**	**$2,934**	**$3,013**	**$3,127**	**$3,213**	**3.4%**

Source: Based on projections and assumptions provided by Phineas management.
(a) Projections reflect growth of 9.8% in 2005, 7.5% in 2006 and 6.7% thereafter.
(b) Projections reflect a 6.0% decline in 2005 and that Phineas captures a 46.1% share in the growth of single family MDO thereafter.
(c) Projections assume 0.45% + 30% surplus of end of year book of business.
(d) Projections assume guaranty fees of 22.1, 23.0, 23.4, 23.8, 24.0 and 24.2 basis points in 2004-2009.
(e) Projections assume growth at same rate as book of business.
(f) Based on forward 1-month LIBOR. Source: Bloomberg.
(g) Projections assume 17.33% on income on capital.
(h) Projections assume losses of (0.6), 1.6, 1.7, 2.1, 2.2 and 2.4 basis points in 2004-2009.
(i) Projections assume 5.0% growth rate.
(j) 27% tax rate.

Key Metrics	2004	2005	2006	2007	2008	2009
Guaranty Fees (% of Avg. Book of Business, bps)	22	23	23	24	24	24
Losses (% of Avg. Book of Business, bps)	1	(2)	(2)	(2)	(2)	(2)
Margin (% of Avg. Book of Business, bps)	23	21	22	22	22	22
Return on Required Capital (Pre-tax)	38.3%	32.4%	32.7%	32.6%	32.8%	32.7%
Return on Required Capital (After-tax)	27.9%	23.6%	23.9%	23.8%	23.9%	23.9%

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Single family P&L as a private company

SINGLE FAMILY PRIVATE COMPANY P&L

			Pvt. Co. Projections for the yr ended Dec. 31,			
P&L Drivers ($Billion)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Ending SF MDO (a)	$7,213	$7,923	$8,515	$9,089	$9,702	$10,356
Ending Fannie Mae SF BOB (b)	2,042	2,030	1,785	1,564	1,371	1,202
Average Book of Business	2,019	2,036	1,908	1,675	1,468	1,286
Required Regulatory Capital (c)	$12	$12	$12	$10	$9	$8
P&L ($Million)						
Revenues	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
G-Fee Income (Includes Allocated G-Fees) (d)	$4,452	$4,686	$4,177	$3,973	$3,520	$3,111
Net Fees/Other Inc. (CE expenses, Technology Fees) (e)	108	107	111	114	118	122
Total Non Interest Income	$4,560	$4,794	$4,288	$4,088	$3,638	$3,233
Inc. on Capital (f)	$806	$430	$491	$441	$395	$353
Other NII (Float, Stopped Interest, Other interest inc/exp) (g)	140	75	85	76	68	61
Total Interest Income	$947	$504	$577	$518	$463	$414
Total Revenues	**$5,506**	**$5,298**	**$4,864**	**$4,605**	**$4,101**	**$3,647**
Expenses						
Credit Loss Expense (h)	$134	($333)	($303)	($352)	($321)	($310)
Administrative Expenses (i)	(533)	(560)	(588)	(617)	(648)	(681)
Corporate Expense Allocation (i)	(534)	(561)	(589)	(618)	(649)	(682)
Total Expenses	**($934)**	**($1,454)**	**($1,480)**	**($1,588)**	**($1,619)**	**($1,673)**
Pretax Income	**$4,572**	**$3,844**	**$3,384**	**$3,017**	**$2,482**	**$1,974**
Tax (j)	(1,235)	(1,192)	(1,049)	(935)	(769)	(612)
Add Back: Franchise Fee (5% after-tax)	0	0	117	104	86	68
Net Income	**$3,338**	**$2,652**	**$2,452**	**$2,186**	**$1,798**	**$1,430**

Source: Based on projections and assumptions provided by Phineas management.
(a) Projections reflect growth of 9.3% in 2005 and 6.6% thereafter.
(b) Projections reflect reduction in book of business by 15% per annum beginning in 2006.
(c) Projections assume 0.66% of end of year book of business.
(d) Projections assume guaranty fees of 22.1, 23.0, 23.4, 23.8, 24.0 and 24.2 basis points in 2004-2009.
(e) Projections assume growth at same rate as book of business.
(f) Based on forward 1-month LIBOR. Source: Bloomberg.
(g) Projections assume 17.33% on income on capital.
(h) Projections assume losses of (0.6), 1.6, 1.7, 2.1, 2.2 and 2.4 basis points in 2004-2009.
(i) Projections assume 5.0% growth rate.
(j) 31% tax rate.

Key Metrics

Guranty Fees (% of Avg. Book of Business, bps)	22	23	22	24	24	24
Losses (% of Avg. Book of Business, bps)	1	(2)	(2)	(2)	(2)	(2)
Margin (% of Avg. Book of Business, bps)	23	21	20	22	22	22
Return on Required Capital (Pre-tax)	38.7%	32.4%	28.6%	29.0%	27.3%	24.7%
Return on Required Capital (After-tax)	28.3%	22.3%	20.7%	21.0%	19.8%	17.9%

Multi family: Public market valuation

($ in millions, except per share data)

	11-Jul-05		Price /			2006E	2006E
	Market Cap.	Price	2006E	Book Value	LT Growth Rate	PEG Ratio	Dividend Yield
Financial Guarantors							
MBIA Inc. (MBI)	$8,479	$62.62	10.0x	1.3x	12.5%	80%	1.8%
Ambac Financial Group, Inc. (ABK)	7,682	70.94	10.1	1.5	13.5	75	0.7
Assured Guaranty Limited (AGO)	1,741	23.22	10.2	1.2	13.0	79	0.5
	Multi-Family Reference (a)		$0.29	$749	3.0%		
	Implied Valuation Per Share (b)		$2.87				
Thrifts with Significant MF Platform							
Washington Mutual, Inc. (WM)	$35,895	$41.20	10.3x	1.7x	10.0%	103%	5.1%
New York Community Bancorp, Inc. (NYB)	4,902	18.46	12.0	NM	10.0	120	5.5
Independence Community Bank Corp. (IBCB)	3,110	37.05	12.0	1.4	10.0	120	3.1
	Multi-Family Reference (a)		$0.29	$749	3.0%		
	Implied Valuation Per Share (b)		$3.41				

Source: Market Data from IDD and SNL. Earnings and dividend estimates for public companies from IBES.
(a) After-Tax Operating Earnings based on company projections.
(b) Implied valuation based on median multiples and 967.90mm shares outstanding.
N.B. Market data as of July 11, 2005.

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Multi family discounted cash-flow analysis – current configuration

Assumptions

Valuation Date	31-Dec-2005	Risk Free Rate	4.34%
Terminal Multiple	9.0x	Market Risk Premium	5.00
Cost of Equity	7.7%	Phineas Beta	0.68
Shares Outstanding (m)	968	Tax Rate	27.0%

DCF Analysis

($ in millions)	2006	2007	2008	2009
Pretax Income - Before Franchise Fee	$379	$396	$398	$413
Income Taxes	(102)	(107)	(107)	(112)
Net Income	277	289	290	302
Capital Retention Requirement [b]	(50)	(51)	(54)	(54)
Free Cash Flow	$226	$238	$236	$248
Terminal Value				2,795
Free Cash Flow/Net Income	82%	82%	81%	82%
Equity Value Per Share	**$2.96**			

Source: Bloomberg. Based on projections and assumptions provided by Phineas management.

(a) Calculated using the capital asset pricing model.

(b) Capital required calculated as 58.5 basis points against the multi-family book of business.

Sensitivity Analysis

Cost of Equity	Terminal Mulpitle 7.0x	8.0x	9.0x	10.0x	11.0x	Implied Beta
5.7%	$2.65	$2.91	$3.16	$3.42	$3.68	**0.28%**
6.7	2.56	2.81	3.06	3.30	3.55	**0.48**
7.7	2.48	2.72	2.96	3.20	3.43	**0.68**
8.7	2.40	2.63	2.86	3.09	3.32	**0.88**
9.7	2.33	2.55	2.77	2.99	3.21	**1.08**

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Value of MF business as a private company

Assumptions

Valuation Date	31-Dec-2005	Risk Free Rate	4.34%
Terminal Multiple	9.0x	Market Risk Premium	5.00
Cost of Equity [a]	8.8%	Phineas Beta	0.89
Shares Outstanding (m)	968	Tax Rate	31.0%
Diluted Shares	1,019	Franchise Fee (After-tax)	5.0

DCF Analysis

($ in millions)	2006	2007	2008	2009
Pretax Income	$397	$401	$405	$422
Income Taxes	(123)	(124)	(126)	(131)
Franchise Fee (5% After-tax)	14	14	14	15
Net Income	288	290	294	305
Capital Retention Requirement [b]	(151)	(58)	(62)	(61)
Free Cash Flow	$137	$232	$232	$245
Terminal Value				2,831
Free Cash Flow/Net Income	47%	80%	79%	80%

Equity Value Per Share	$2.79
Equity Value Per Share Assuming Dilution From New Shareholders (c)	$2.65

Source: Bloomberg. Based on projections and assumptions provided by Phineas management.

(a) Calculated using the capital asset pricing model.

(b) Capital required calculated as 66.4 basis points against the multi-family book of business.

(c) Assumes 50.852mm common shares are issued at market price to meet the additional capital requirement for the portfolio business.

Sensitivity Analysis

Cost of Equity	Terminal Mulpitle 7.0x	8.0x	9.0x	10.0x	11.0x	Implied Beta
6.8%	$2.36	$2.60	$2.84	$3.07	$3.31	0.49%
7.8	2.28	2.51	2.74	2.97	3.20	0.69
8.8	2.21	2.43	2.65	2.87	3.09	0.89
9.8	2.14	2.35	2.56	2.78	2.99	1.09
10.8	2.07	2.28	2.48	2.69	2.89	1.29

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Multi family P&L – current configuration

Management Estimates

P&L Drivers ($Billion)	2004	2005	2006	2007	2008	2009	CAGR 05-09
Multifamily MDO, End Balance (a)	$601	$637	$669	$703	$738	$775	5.0%
MF Book of Business, End Balance (b) (c)	110	120	128	137	146	155	6.8
Average Book of Business	103	115	124	132	141	151	7.0
Regulatory Capital (d)	0.6	0.7	0.7	0.8	0.9	0.9	6.8

P&L ($Million)

Revenues	2004	2005	2006	2007	2008	2009	CAGR 05-09
Guaranty Fees (incl. CE Fee which was included in Other income) (e)	$419	$446	$471	$499	$529	$559	5.8%
Other Income (excl. CE fee) (f)	96	102	107	114	121	128	5.8
Total Non Interest Income	$514	$548	$578	$613	$650	$687	5.8%
Income on Capital (g)	$16	$20	$31	$34	$37	$40	18.5%
Float (h)	9	20	31	34	37	40	18.5
Total Interest Income	$25	$41	$62	$68	$74	$80	18.5%
Total Revenue	$539	$589	$640	$681	$724	$767	6.8%
Expenses							
Credit Loss Expense (i)	($45)	($84)	($90)	($96)	($117)	($124)	10.4%
Administrative Expenses (j)	(60)	(70)	(80)	(92)	(105)	(120)	14.2
Corporate Expense Allocation (k)	(78)	(85)	(91)	(97)	(104)	(110)	6.8
Total Expenses	($184)	($239)	($261)	($285)	($326)	($354)	10.4%
Pretax Income - Before Franchise Fee	$356	$350	$379	$396	$398	$413	4.2%
Tax (l)	(96)	(94)	(102)	(107)	(107)	(112)	4.2
Net Income	$260	$255	$277	$289	$290	$302	4.2%

Source: Based on assumptions provided by Phineas management.
(a) Based on 6% growth in 2005 and 5% thereafter.
(b) Liquidations projected by management to be 6.1%, 5.8%, 5.4%, 6.0% and 4.7% from 2005 to 2009.
(c) Assumes Phineas has 20% market share of future acquisitions and 45% share of MF BOB churn.
(d) Projections assume 0.45% + 30% surplus of end of year book of business.
(e) Based on projected guaranty fees of 0.38% for 2004, 0.37% for 2005 and 2006, 0.36% thereafter.
(f) Assumed to be 22.8% of guaranty fees.
(g) Based on forward 1-month LIBOR. Source: Bloomberg.
(h) Based on prior year income on capital.
(i) Assumed to be 0.07% from 2005 to 2007, and 0.08% from 2008 to 2009.
(j) Assumed to be 0.06% from 2005 to 2006, 0.07% from 2007 to 2008, and 0.8% thereafter.
(k) Assumed to be 0.07%.
(l) Assume tax rate of 27%.

Key Metrics

Guranty Fees (% of End Book of Business, bps)	38	37	37	36	36	36
Losses (% of End Book of Business, bps)	(4)	(7)	(7)	(7)	(8)	(8)
Margin (% of End Book of Business, bps)	34	30	30	29	28	28
Return on Required Capital (Pre-tax)	55.2%	50.0%	50.6%	49.4%	46.5%	45.5%
Return on Required Capital (After-tax)	40.3	36.5	36.9	36.1	34.0	33.2

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Multi family P&L as a private company

Management Estimates

P&L Drivers ($Billion)	2004	2005	2006	2007	2008	2009	CAGR 05-09
Multifamily MDO, End Balance (a)	$601	$637	$602	$632	$664	$697	2.3%
MF Book of Business, End Balance (b) (c)	110	120	128	137	146	155	6.8
Average Book of Business	103	115	124	132	141	151	7.0
Regulatory Capital (d)	0.6	0.7	0.9	0.9	1.0	1.0	10.2

P&L ($Million)

Revenues	2004	2005	2006	2007	2008	2009	CAGR 05-09
Guaranty Fees (incl. CE Fee which was included in Other income) (e)	$419	$446	$474	$493	$526	$559	5.8%
Other Income (excl. CE fee) (f)	96	102	108	112	120	128	5.8
Total Non Interest Income	$514	$548	$582	$605	$646	$687	5.8%
Income on Capital (g)	$16	$20	$35	$39	$42	$46	22.3%
Float (h)	9	20	31	34	37	40	18.5
Total Interest Income	$25	$41	$66	$73	$79	$86	20.4%
Total Revenue	$539	$589	$648	$678	$725	$772	7.0%
Expenses							
Credit Loss Expense (i)	($45)	($84)	($90)	($96)	($117)	($124)	10.4%
Administrative Expenses (j)	(60)	(70)	(57)	(62)	(67)	(72)	0.5
Corporate Expense Allocation (k)	(78)	(85)	(104)	(119)	(136)	(155)	16.2
Total Expenses	($184)	($239)	($251)	($277)	($320)	($351)	10.1%
Pretax Income	$356	$350	$397	$401	$405	$422	4.8%
Tax (l)	(110)	(94)	(123)	(124)	(126)	(131)	8.5
Add Back: Mission Costs (5% After-tax)	0	0	14	14	14	15	NM
Net Income	$245	$255	$288	$290	$294	$305	4.6%

Source: Based on assumptions provided by Phineas management.
(a) Based on 10% reduction after a 6% annual growth in 2005 and 5% thereafter.
(b) Liquidations projected by management to be 6.1%, 5.8%, 5.4%, 6.0% and 4.7% from 2005 to 2009.
(c) Assumes Phineas has 20% market share of future acquisitions and 45% share of MF BOB churn.
(d) Projections assume 0.45% + 30% surplus of end of year book of business.
(e) Based on projected guaranty fees of 0.38% for 2004, 0.37% for 2005 and 2006, 0.36% thereafter.
(f) Assumed to be 22.8% of guaranty fees.
(g) Based on forward 1-month LIBOR. Source: Bloomberg.
(h) Based on prior year income on capital.
(i) Assumed to be 0.07% from 2005 to 2007, and 0.08% from 2008 to 2009.
(j) Assumed to be 0.06% from 2005 to 2006, 0.07% from 2007 to 2008, and 0.8% thereafter.
(k) Assumed to be 0.08% from 2005 to 2006, 0.09% from 2007 to 2008, and 0.10% thereafter.
(l) Assume tax rate of 31%.

Key Metrics

Guranty Fees (% of End Book of Business, bps)	38	37	37	36	36	36
Losses (% of End Book of Business, bps)	(4)	(7)	(7)	(7)	(8)	(8)
Margin (% of End Book of Business, bps)	34	30	30	29	28	28
Return on Required Capital (Pre-tax)	55.2%	50.0%	46.7%	44.1%	41.8%	40.9%
Return on Required Capital (After-tax)	38.1	36.5	33.8	32.0	30.3	29.6

Portfolio: Public market valuation

($ in millions, except per share data)

	11-Jul-05 Market Cap	11-Jul-05 Price	Price/ 2006E	Long Term Growth Rate	2006E PEG Ratio	2006E Dividend Yield
REIT: RMBS Portfolio Managers						
Annaly Mortgage Management, Inc. (NLY)	$2,131	$17.57	10.2x	5.0%	203%	9.5%
Redwood Trust, Inc. (RWT)	1,313	53.37	7.8	8.0	97	12.4
MFA Mortgage Investments, Inc. (MFA)	592	7.19	8.8	4.5	195	10.3
Anworth Mortgage Asset Corporation (ANH)	467	9.85	8.3	NM	NM	11.2
Luminent Mortgage Capital, Inc. (LUM)	417	10.90	8.3	NM	NM	12.6
Portfolio Reference (a)			$3.78			$4,893
Implied Valuation per Share			$31.59			$45.27
REIT: CMBS Portfolio Managers						
Newcastle Investment Corp. (NCT)	$1,323	$30.23	9.9x	9.5%	105%	7.8%
Anthracite Capital, Inc. (AHR)	639	11.98	9.5	5.0	191	9.8
Capital Trust, Inc. (CT)	522	34.50	12.6	8.0	158	7.3
Portfolio Reference (a)			$3.78			
Implied Valuation per Share			$37.57			
Banks with Mortgage Platform						
Bank of America Corporation (BAC)	$181,839	$45.17	10.2x	9.0%	113%	4.5%
Wells Fargo & Company (WFC)	104,159	61.73	12.2	11.0	111	3.5
National City Corporation (NCC)	22,425	35.22	10.8	8.0	135	4.3
North Fork Bancorporation, Inc. (NFB)	13,989	29.29	11.4	10.8	106	3.5
Portfolio Reference (a)			$3.78			
Implied Valuation per Share			$42.13			

Source: Market Data from IDD and SNL. Earnings Estimates for public companies from IBES.
(a) After-tax net income:Citigroup projections model based on management assumptions. Reference income for dividend yield valuation equals 2006E pre-tax income*95%, less franchise less preferred dividends.
N.B. Market data as of July 11, 2005.

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Portfolio: Public market valuation (cont'd)

($ in millions, except per share data)

	11-Jul-05		Price/	Long Term	2006E	2006E
	Market Cap	Price	2006E	Growth Rate	PEG Ratio	Dividend Yield
Thrifts						
Washington Mutual, Inc. (WM)	$35,895	$41.20	10.3x	10.0%	103%	5.1%
Golden West Financial Corporation (GDW)	20,223	65.82	12.3	12.5	98	0.5

Portfolio Reference (a)	$3.78
Implied Valuation per Share	$42.77

Source: Market Data from IDD and SNL. Earnings Estimates for public companies from IBES.
(a) After-tax net income:Citigroup projections model based on management assumptions. Reference income for dividend yield valuation equals 2006E pre-tax income*95%, less franchise less preferred dividends.
N.B. Market data as of July 11, 2005.

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Portfolio: Discounted cash flow – current configuration

Assumptions

Valuation Date	31-Dec-2005	Risk Free Rate	4.34%
Terminal Multiple (Price / Book)	1.2x	Market Risk Premium	5.00
Phineas Cost of Equity (a)	7.7%	Beta	0.68
Shares	968	Tax Rate	27.0%

DCF Analysis

Revenues	**2006**	**2007**	**2008**	**2009**
Pretax Income	$5,589	$6,271	$6,456	$6,325
Income Taxes	(1,509)	(1,693)	(1,743)	(1,708)
Preferred Dividends	(417)	(375)	(358)	(309)
Net Income	$3,663	$4,203	$4,355	$4,308
Capital Retention Requirement (b)	($1,378)	($300)	($970)	$0
Free Cash Flow	**$2,286**	**$3,903**	**$3,385**	**$4,308**
Terminal Value				**$20,349**
Free Cash Flow / Net Income	**62%**	**93%**	**78%**	**100%**
Equity Value Per Share				**$27.37**
Terminal Value As A % Of Equity Value				**66.2%**

Source: Bloomberg. Based on projections and assumptions provided by Phineas management.
(a) Calculated using the capital asset pricing model.
(b) Capital required calculated as 2.67% against assets in the portfolio.
(c) Assumes 967.904mm shares outstanding.

Sensitivity Analysis

		Terminal Multiple					
		1.0x	**1.1x**	**1.2x**	**1.3x**	**1.4x**	
Cost of Equity	**5.7%**	$26.37	$27.78	$29.18	$30.58	$31.98	**0.28%**
	6.7	25.55	26.90	28.25	29.60	30.95	**0.48**
	7.7	24.77	26.07	27.37	28.67	29.97	**0.68**
	8.7	24.02	25.27	26.52	27.78	29.03	**0.88**
	9.7	23.30	24.50	25.71	26.92	28.13	**1.08**

Implied Beta

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Value of portfolio business without the charter: Bank

Assumptions

Valuation Date	31-Dec-2005	Rf	4.34%
Terminal Multiple (Price / Book)	1.2x	Market Risk Premium	5.00
Phineas "Bank" Cost of Equity (a)	8.4%	Beta	0.82
Shares	968	Tax Rate	31.0%
Diluted Shares	1,019		

DCF Analysis

Revenues	2006	2007	2008	2009
Pretax Income	$3,861	$3,243	$2,803	$2,204
Income Taxes	(1,197)	(1,005)	(869)	(683)
Preferred Dividends	(417)	(375)	(358)	(309)
Net Income	$2,247	$1,863	$1,576	$1,212
Capital Retention Requirement	($7,862)	$5,462	$3,002	$2,847
Free Cash Flow	**($5,615)**	**$7,325**	**$4,578**	**$4,059**
Terminal Value				**$7,544**
Free Cash Flow / Net Income	**(250%)**	**393%**	**291%**	**335%**

Equity Value	$13,045
Equity Value Per Share	$13.48
Equity Value Per Share Assuming Dilution From New Shareholders (c)	$12.80
Terminal Value As A % Of Equity Value	49.2%

Source: Bloomberg. Based on projections and assumptions provided by Phineas management.

(a) Calculated using the capital asset pricing model.

(b) Capital required calculated as 5.00% against assets in the portfolio.

(c) Assumes 50.852mm common shares are issued at market price to meet the additional capital requirement.

Sensitivity Analysis

	Terminal Multiple					
Cost of Equity	1.0x	1.1x	1.2x	1.3x	1.4x	Implied Beta
6.4%	$12.82	$13.30	$13.78	$14.26	$14.74	0.44%
7.4	12.36	12.82	13.28	13.75	14.21	0.64
8.4	11.91	12.36	12.80	13.25	13.70	0.84
9.4	11.49	11.92	12.35	12.78	13.21	1.04
10.4	11.08	11.49	11.91	12.32	12.74	1.24

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Value of portfolio business without the charter: REIT

Assumptions

Valuation Date	31-Dec-2005	Rf	4.34%
Terminal Multiple (Price / Book)	1.2x	Market Risk Premium	5.00
Phineas "REIT" Cost of Equity (a)	7.4%	Beta	0.62
Shares	968	Tax Rate	0.0%
Diluted Shares	1,398		

DCF Analysis

Revenues	2006	2007	2008	2009
Pretax Income	$4,238	$3,497	$3,852	$3,046
Income Taxes	0	0	0	0
Preferred Dividends	(417)	(375)	(358)	(309)
Net Income	$3,821	$3,123	$3,493	$2,737
Capital Retention Requirement	($31,841)	$11,224	$6,975	$5,695
Free Cash Flow	**($28,020)**	**$14,347**	**$10,468**	**$8,432**
Terminal Value				**$21,220**
Free Cash Flow / Net Income	**(733%)**	**459%**	**300%**	**308%**

Equity Value	**$17,091**
Equity Value Per Share	**$17.66**
Equity Value Per Share Assuming Dilution From New Shareholders (c)	**$12.22**
Terminal Value As A % Of Equity Value	**107.7%**

Source: Bloomberg. Based on projections and assumptions provided by Phineas management.
(a) Calculated using the capital asset pricing model.
(b) Capital required calculated as 10.00% against assets in the portfolio.
(c) Assumes 430.211mm common shares are issued at market price to meet the additional capital requirement.

Sensitivity Analysis

Cost of Equity	Terminal Multiple 1.0x	1.1x	1.2x	1.3x	1.4x	Implied Beta
5.4%	$11.76	$12.78	$13.81	$14.83	$15.86	**0.21%**
6.4	11.02	12.01	13.00	13.98	14.97	**0.41%**
7.4	10.32	11.27	12.22	13.18	14.13	**0.61%**
8.4	9.65	10.57	11.49	12.40	13.32	**0.81%**
9.4	9.02	9.90	10.78	11.67	12.55	**1.01%**

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Portfolio P&L – current configuration

PORTFOLIO P&L

P&L Drivers ($ billion)	2006	2007	2008	2009	CAGR '06 - '09
Portfolio Balance (a)	$828	$828	$828	$828	*0.0%*
Required Capital (b)	$22.1	$22.1	$22.1	$22.1	*0.0%*
Preferred Stock	6.4	6.1	5.1	5.1	*(7.1%)*
Common Stock	$15.7	$16.0	$17.0	$17.0	*2.6%*

P&L ($ million)					
Revenues					**CAGR '06 - '09**
Net Interest Income	$5,930	$6,623	$6,819	$6,700	*4.2%*
Administrative Expenses (c)	($176)	($186)	($197)	($209)	*6.0%*
Corporate Expense Allocation (c)	(166)	(166)	(166)	(166)	*0.0*
Total Expenses	($341)	($352)	($363)	($375)	*3.2%*
Pretax Income	$5,589	$6,271	$6,456	$6,325	*4.2%*
Income Taxes	(1,509)	(1,693)	(1,743)	(1,708)	*4.2*
Core Earnings Before Pref. Dividends	**$4,080**	**$4,578**	**$4,713**	**$4,617**	*4.2%*
Preferred Dividends (d)	**($417)**	**($375)**	**($358)**	**($309)**	*(9.5%)*
Core Earnings After Pref. Dividends	**$3,663**	**$4,203**	**$4,355**	**$4,308**	*5.6%*

Source: 2000 - 2004 data provided by Phineas management on 04.27.2005 and projections based on assumptions as outlined by Phineas management. Forward interest & swap rates from Bloomberg.

(a) 2000 - 2004 reflects average annual balance ; Projections reflects no growth in portfolio balance, beginning with an $828 billion balance at May 31, 2005.

(b) Projections assume 2.05% + 30% surplus, of end of year portfolio balance.

(c) Assumes 2 bps (as a % of end of year portfolio balance) beginning in 2005, and that administrative expenses grow at 6.00% per year and corporate expenses remain at 2 bps. Includes the 5.0% after-tax franchise fee in 2006 - 2009.

(d) Based on actual dividends reported for the nine months ended 09.30.2004 of $124mm plus $42 in estimated dividends for the fourth quarter. Assumes callable preferreds are called by Phineas.

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Portfolio P&L without charter: Bank

PORTFOLIO P&L

P&L Drivers ($ billion)	2006	2007	2008	2009	CAGR '06 - '09
Portfolio Balance (a)	$480	$364	$285	$228	(22.0%)
Required Capital (b)	$24.0	$18.2	$14.2	$11.4	(22.0%)
Preferred Stock	$6.4	$6.1	$5.1	$5.1	
Common Stock	$17.6	$12.1	$9.1	$6.3	

P&L ($ million)	2006	2007	2008	2009	CAGR '06 - '09
Revenues					
Interest Income On Capital	$464	$361	$288	$235	(20.3%)
Net Interest Income On Assets	$3,627	$3,055	$2,650	$2,078	(16.9%)
Net Interest Income	$4,091	$3,417	$2,939	$2,313	(16.9%)
Expenses					
Administrative Expenses (c)	($117)	($90)	($71)	($58)	(21.0%)
Corporate Expense Allocation (c)	(114)	(84)	(65)	(51)	(23.3%)
Total Expenses	($231)	($174)	($136)	($109)	(22.1%)
Pretax Income	$3,861	$3,243	$2,803	$2,204	(17.0%)
Income Taxes	(1,197)	(1,005)	(869)	(683)	(17.0%)
Core Earnings Before Pref. Dividends	**$2,664**	**$2,238**	**$1,934**	**$1,521**	(17.0%)
Preferred Dividends (d)	**($417)**	**($375)**	**($358)**	**($309)**	(9.5%)
Core Earnings After Pref. Dividends	**$2,247**	**$1,863**	**$1,576**	**$1,212**	(18.6%)

Source: 2000 - 2004 data provided by Phineas management on 04.27.2005 and projections based on assumptions as outlined by Phineas management. Forward interest & swap rates from Bloomberg.

(a) 2000 - 2004 reflects average annual balance ; Projections reflect a run-off scenario, beginning with a $656 billion balance at year-end 2005.

(b) Assumes that 2000 - 2004 reflects annual balance ; Projections assume 5.00% of end of year portfolio balance.

(c) Assumes 2 bps (as a % of end of year portfolio balance) beginning in 2005, and that administrative expenses grow at 6.00% per year and corporate expenses remain at 2 bps. Assumes that a 5.0% after-tax franchise fee is included in administrative expenses beginning in 2006.

(d) Based on actual dividends reported for the nine months ended 09.30.2004 of $124mm plus $42 in estimated dividends for the fourth quarter. Assumes callable preferreds are called by Phineas.

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Portfolio P&L without charter: REIT

PORTFOLIO P&L

P&L Drivers ($ billion)	2006	2007	2008	2009	CAGR '06 - '09
Portfolio Balance (a)	$480	$364	$285	$228	*(22.0%)*
Required Capital (b)	$48.0	$36.4	$28.5	$22.8	*(22.0%)*
Preferred Stock	$6.4	$6.1	$5.1	$5.1	
Common Stock	$41.6	$30.4	$23.4	$17.7	

P&L ($ million)					CAGR '06 - '09
Revenues					*(7.8%)*
Interest Income on Capital (c)	$1,458	$1,135	$906	$739	*(20.3%)*
Net Interest Income On Assets	3,010	2,536	3,082	2,416	*(7.1%)*
Net Interest Income	$4,469	$3,671	$3,987	$3,155	
Expenses					
Administrative Expenses (c)	($117)	($90)	($71)	($58)	*(21.0%)*
Corporate Expense Allocation (c)	(114)	(84)	(65)	(51)	*(23.3%)*
Total Expenses	($231)	($174)	($136)	($109)	*(22.1%)*
Pretax Income	$4,238	$3,497	$3,852	$3,046	*(10.4%)*
Income Taxes (d)	0	0	0	0	*NM*
Core Earnings Before Pref. Dividends	**$4,238**	**$3,497**	**$3,852**	**$3,046**	*(10.4%)*
Preferred Dividends (e)	**($417)**	**($375)**	**($358)**	**($309)**	*(9.5%)*
Core Earnings After Pref. Dividends	**$3,821**	**$3,123**	**$3,493**	**$2,737**	*(10.5%)*

Source: 2000 - 2004 data provided by Phineas management on 04.27.2005 and projections based on assumptions as outlined by Phineas management. Forward interest & swap rates from Bloomberg.

(a) 2000 - 2004 reflects average annual balance ; Projections reflect a run-off scenario, beginning with a $656 billion balance at year-end 2005.

(b) Assumes that 2000 - 2004 reflects annual balance ; Projections assume 10.00% of end of year portfolio balance.

(c) Assumes 2 bps (as a % of end of year portfolio balance) beginning in 2005, and that administrative expenses grow at 6.00% per year and corporate expenses remain at 2 bps. Assumes that a 5.0% after-tax franchise fee is included in administrative expenses beginning in 2006.

(d) Assumes 100% of income is distributed to shareholders.

(e) Based on actual dividends reported for the nine months ended 09.30.2004 of $124mm plus $42 in estimated dividends for the fourth quarter. Assumes callable preferreds are called by Phineas.

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Alternative Approaches
To Charter Valuation

Case Study: WestLB

- WestLB is one of Germany´s leading financial services providers with total assets of € 253.8BN as at December 31, 2004, WestLB focuses on lending, structured finance, capital market and private equity products, private banking, asset management, transaction services and real estate finance.
- In July 2001, as a result of a state aid inquiry of the EU Commission the German government abolished the state guarantee provided to German Landesbanks granting them a transition phase of four years until July 18, 2005. Most liabilities outstanding on July 18, 2005 will be "grandfathered" with the state guarantee.
- S&P believes that the credit rating of WestLB will decrease by 3 notches from AA- to A- after the elimination of guarantor liability.
- Fitch believes that the long term rating of West LB is likely to fall in a A- while Moody's indicated that non-guaranteed long term rating of West LB will decrease by 2 notches from Aa2 to A1.

Ratings

	With guarantor liability		Without guarantor liability
	Short term	Long term	Long term
Moody's	P-1	Aa2	A1
Standard & Poor's	A-1+	AA-	A-
Fitch Ratings	F1+	AAA	A-

Bank regulatory capital ratios (BIS)

	3/31/2005	12/31/2004	Change € billions
Core capital (€ billions)	7.5	7.6	-0.1
Capital and reserves (€ billions)	14.3	14.6	-0.3
Risk-weighted assets (€ billions)	122.4	118	4.4
Core capital ratio (%)	7.8	8.1	
Equity ratio (%)	11.7	12.4	

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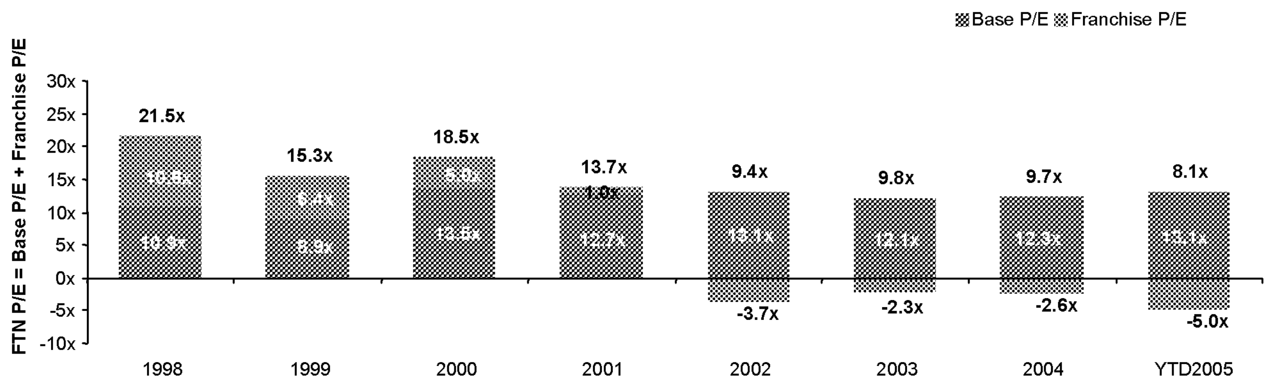
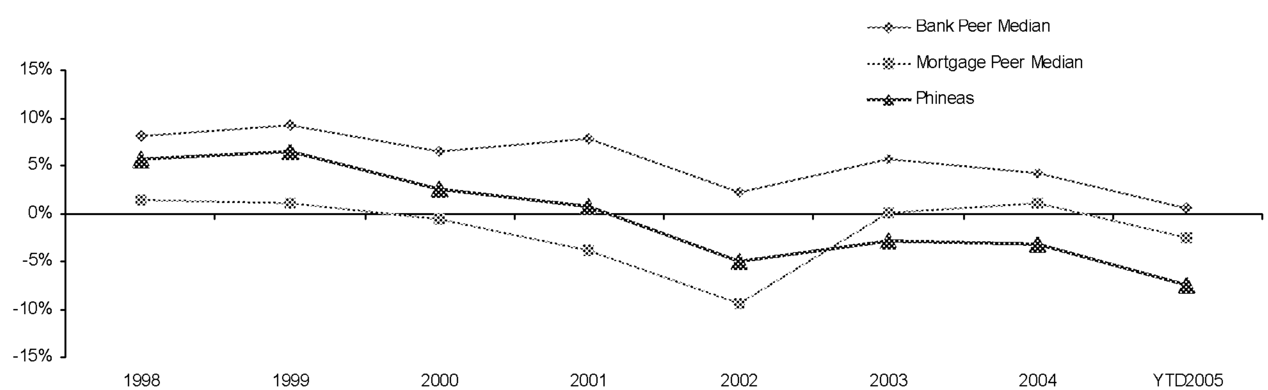
P/E franchise factor model: Phineas over time

Base P/E and Franchise P/E



Implied growth



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Post charter value impact: ROE

Base case

Name	Beta[1]	Cost of Equity[2]
Phineas	**0.68**	**7.7%**

Growth Factor PV Growth in Investment $= \dfrac{g^{(3)}}{COE - g} = \dfrac{0.8\%}{7.7\% - 0.8\%} = 0.12$

X

Franchise Factor Excess Returns $= \dfrac{ROE^{(4)} - COE}{(ROE) * (COE)} = \dfrac{33.4\% - 7.7\%}{(33.4\%) * (7.7\%)} = 9.9$

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Multiple for Earnings from Current Assets $= \dfrac{1}{COE} = \dfrac{1}{7.7\%} = 12.9$

P/E= 14.1x

Post Charter impact: Decline in ROE

- Assumes that ratings downgrade from AAA to A would decrease Phineas net interest margin by c. 12.5bps
- Our model predicts that such an increase in the cost of debt would result in reduction of ROE of approximately 50% or an ROE of 16.5%

Growth Factor PV Growth in Investment $= \dfrac{g}{COE - g} = \dfrac{0.8\%}{7.7\% - 0.8\%} = 0.12$

X

Franchise Factor Excess Returns $= \dfrac{ROE - COE}{(ROE) * (COE)} = \dfrac{16.5\% - 7.7\%}{(16.5\%) * (7.7\%)} = 6.8$

\+

Multiple for Earnings from Current Assets $= \dfrac{1}{COE} = \dfrac{1}{7.7\%} = 12.9$

P/E= 13.7x

$\triangle$P/E = 0.4x
or $\triangle$Value[5] = $2.4bn

(1): 5 year weekly adjusted Beta.
(2): We assumed a risk free rate of 4.34% and an equity market risk premium of 5%.
(3): Growth: we use Phineas median implied growth for the 1998-2004 period.
(4): ROE: 3 – year average ROE as of June 2004 (pre-restatement)
(5): NTM EPS estimate: $6.95 per share, number of shares outstanding: 968mm.

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