



# Barclays Global Financial Services Conference

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September 12, 2012

# Safe Harbor Statement

## *Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995*

This presentation contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). All such forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act. Actual outcomes and results could differ materially from those forecast due to the impact of many factors beyond the control of American Capital Agency Corp. ("AGNC"). All forward-looking statements included in this presentation are made only as of the date of this presentation and are subject to change without notice. Certain factors that could cause actual results to differ materially from those contained in the forward-looking statements are included in our periodic reports filed with the Securities and Exchange Commission ("SEC"). Copies are available on the SEC's website at [www.sec.gov](http://www.sec.gov). AGNC disclaims any obligation to update our forward-looking statements unless required by law.

The following slides contain summaries of certain financial and statistical information about AGNC. They should be read in conjunction with our periodic reports that are filed from time to time with the SEC. Historical results discussed in this presentation are not indicative of future results.

# Corporate Overview-UPDATE



TYPE / STOCK TICKER:  
**COMMON STOCK / AGNC**

EXCHANGE:  
**NASDAQ**

IPO DATE:  
**MAY 2008**

IPO PRICE:  
**\$20.00 PER SHARE**

TOTAL DIVIDENDS PAID SINCE IPO<sup>1</sup>:  
**\$21.36 PER SHARE**

NET ASSET VALUE<sup>2</sup>:  
**\$29.41 PER SHARE**

TOTAL EQUITY CAPITAL<sup>2</sup>:  
**\$9.0 BILLION**

## SUMMARY

American Capital Agency Corp. is a real estate investment trust that invests in and manages a levered portfolio of residential mortgage securities for which the principal and interest payments are guaranteed by a U.S. government-sponsored entity (Fannie Mae, Freddie Mac) or a U.S. government agency (Ginnie Mae).

## OUR INVESTMENT OBJECTIVE

- Provide attractive risk-adjusted returns to our investors over the long-term through a combination of dividends and capital appreciation

## OUR INVESTMENT STRATEGY

- Invest across the Agency MBS universe
- Relative value approach to asset selection
- Actively manage the portfolio
- Leverage and hedging strategies that are actively managed based on portfolio composition and market risks

## OUR TEAM

- Senior investment professionals have worked together for the majority of their careers and, on average, have 19 years of investment experience across the residential mortgage universe
- Previously managed one of the world's largest portfolios of residential mortgage related investments

## OUR FEE STRUCTURE

- 1.25% on equity
- No incentive fee

## QE3 – Why do we care?

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MANAGEMENT BELIEVES QE3 WOULD HAVE A MATERIAL IMPACT ON BOTH THE VALUATIONS AND THE CASH FLOWS OF AGENCY MBS AND THUS CANNOT BE IGNORED

- ◆ **The most recent FED minutes and comments indicate that another round of quantitative easing is a very real possibility**
- ◆ **Agency MBS would likely be a major focus of a new round of asset purchases by the FED**
- ◆ **Large scale purchases of agency MBS by the FED would likely drive the prices of lower coupon MBS to new highs**
- ◆ **This would likely have significant ramifications for mortgage investors**
  - ✓ The yields and risk-adjusted returns on new purchases would be significantly lower in this type of environment
  - ✓ Mortgage rates to borrowers would likely be lower
  - ✓ Refinancing volumes could increase materially driving prepayments on many types of mortgages to new highs and thus negatively impacting the cash flows on a wide spectrum of MBS

## **QE3 – What agency MBS would the FED buy?**

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- ◆ **The FED is currently reinvesting prepayments on its existing portfolio of Agency MBS into new production, low coupon, fixed-rate mortgages (i.e., what is currently being originated)**
- ◆ **It is widely believed that additional purchases associated with a QE3 will be focused on the same types of assets**
  - ✓ The FED has only purchased generic (TBA) mortgage securities to date
  - ✓ The FED has not purchased securities with specific loan attributes or ARMs
  - ✓ The FED has recently purchased 30 year, 3% and 3.5% MBS and 15 year, 2.5% and 3% securities
- ◆ **The average coupon of the FED purchases has been dropping as mortgage rates have declined and we expect this trend to continue under QE3**
- ◆ **Thus, in the absence of a large change in interest rates, the majority of the FED's purchases would likely be in 30 year 3% and 15 year 2.5% MBS**

## QE3 - How would this impact MBS prices?

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- ◆ **If QE3 were to occur, the price of the lowest coupon, 15 and 30 year mortgage securities would likely increase materially**
  - ✓ 1 point of outperformance versus swaps is possible for the lowest coupon 30 year MBS
  
- ◆ **The potential prices for higher coupon MBS ( $\geq 4\%$ ), or ARMs are considerably harder to predict**
  - ✓ These securities may benefit from a “crowding out effect” as mortgage investors look to buy assets not impacted by the FED
  - ✓ However, generic higher coupon mortgages will likely be negatively impacted by faster prepayment expectations driven by the lower mortgage rates
  - ✓ The relative strength of these two offsetting factors will help determine valuations

# QE3 – Would prepayments really change?

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WHILE IT IS DIFFICULT TO PREDICT THE SIZE OF THE IMPACT QE3 WILL HAVE ON PREPAYMENT SPEEDS, THE RISKS ASSOCIATED WITH IT ARE HARD TO IGNORE

## ◆ Arguments favoring limited prepayment impact

- ✓ Many borrowers will not qualify for new mortgages
- ✓ Mortgage rates are already at record lows and most borrowers already have incentive to refinance
- ✓ Originators are operating near full capacity
- ✓ Mortgage rates will remain relatively unchanged as originators widen their profit margin

## ◆ Arguments favoring significantly faster prepayments

The universe of borrowers that won't qualify for new loans is considerably smaller today

- HARP 2.0 is working allowing many borrowers with loans originated prior to June 2009 to qualify for new loans
- 2009 and newer mortgages were already underwritten to higher standards and most of these borrowers have sufficient equity in their homes
- ✓ Increased media effect associated with QE3 will increase borrower awareness and demand for new loans
- ✓ Originators will likely increase capacity
- ✓ The magnitude of the refinance incentive for recent vintages will increase

# How is AGNC positioned against this backdrop?

BY HAVING THE “RIGHT ASSETS” (WHERE PREPAYMENTS SHOULD REMAIN RELATIVELY STABLE) AND BY MAINTAINING PRUDENT LEVERAGE, AGNC SHOULD BE ABLE TO GENERATE ATTRACTIVE ECONOMIC RETURNS EVEN IF A QE3 SCENARIO UNFOLDS

- ◆ **AGNC has taken steps to improve performance in the event of a QE3**
  - ✓ About 70% of AGNC’s mortgage assets were backed by either lower loan balance mortgages or higher LTV loans originated under the HARP program that are likely to continue to exhibit favorable prepayment performance
  - ✓ The majority of the remaining assets are in lower coupon, fixed-rate MBS
  - ✓ Given the low coupon on these securities prepayment performance should be manageable
  - ✓ These securities would likely be targeted by the FED under QE3
- ◆ **AGNC has a significant amount of hedges in place to reduce the impacts of higher rates which could occur with or without QE3**

# Conclusion

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**AGNC BELIEVES IT IS MANAGEMENT'S RESPONSIBILITY TO POSITION THE PORTFOLIO FOR A RANGE OF POSSIBLE OUTCOMES**

- ◆ **Changes in prepayments, interest rates, and funding are the most significant risk factors facing a mortgage REIT**
  
- ◆ **QE3 is clearly the most significant exogenous risk factor when measured by the combination of probability and impact**
  - ✓ While opinions vary meaningfully among “experts” on the eventual likelihood of additional quantitative easing, few participants would deny the probability is real
  - ✓ If accompanied by substantial mortgage purchases, mortgage valuations and prepayments are likely to be materially different (impacting both the ROE of the existing portfolio and new purchases)
  - ✓ QE3 is also designed to impact interest rates as well
  
- ◆ **For these reasons, ignoring QE3 is not an option irrespective of whether we view it as a positive or a negative**