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Mortgage-Backed Securities Risk Acknowledgement Disclosures

You understand that, as briefly described below, mortgage-backed securities (MBS) are potentially more complex, and thus involve a greater degree of risk, than an investment in traditional fixed income securities.

Mortgage-backed securities include:

Mortgage Pass-Throughs: These securities represent a direct ownership interest in a pool of mortgage loans. Cash flow, in the form of payment of interest and principal, is re-distributed pro-rata to all investors.

Collateralized Mortgage Obligations (CMOs): In a CMO, cash flows from the underlying mortgages are directed to different classes of securities, with different maturities and coupon rates. A wider range of investment timeframes are offered from the same pool of underlying mortgages. These different investments are called “tranches”. Each CMO has two or more tranches, each with a potentially different average life and cash flow pattern designed for different investment objectives. "Average life" is the average time that each dollar of principal in the pool is expected to be outstanding, based on certain prepayments assumptions. The principal pay-off for each tranche may vary depending on the structure of the tranche. Principal repayments, both scheduled and pre-paid, as well as interest are distributed to different tranches based on a pre-determined priority, as described in the prospectus.

Home Equity Lines (HELs): Can be securitized as first or second mortgages that are not guaranteed by the government or any related Government - Sponsored Enterprise (GSE). In addition to traditional home equity mortgage products, HELs has grown to encompass Home Equity Lines of Credit (HELOCs), Home Improvement Loans (HILs), and other lower quality, nonprime, non-conforming collateral.

The risks of trading mortgage-backed securities include, but are not limited to:

Credit Risk

The risk that the borrower will be unable to make interest or principal payments when they are due and will default is known as credit risk. Mortgage-backed securities offer varying degrees of protection for principal and interest payments, as described below. However, defaults on non-agency collateral may result in loss of interest or principal for CMO securities

Attempts to mitigate credit risk include:

- Explicit guarantee of the underlying pool of loans by the Government National Mortgage Association (GNMA, or "Ginnie Mae) (explicit guarantee of the U.S. Government).
- Implicit guarantee by the market of the underlying pool of loans by GSEs, such as the Federal National Mortgage Association (FNMA, or “Fannie Mae”) and the Federal Home Loan Mortgage Corp (FHLMC, or “Freddie Mac”) . These GSEs are currently under conservatorship and receive financial support from the U.S. Treasury.
- Private-label CMOs are issued by private entities including investment banks and similar financial institutions. The structure of each private-label CMO provides the basis for a credit rating, but these securities carry no explicit or implicit Government guarantee and are the sole obligation of the issuer. As a result, credit support is often provided by the issuer, either by over-collateralizing specific tranches in the structure of the CMO or through third-party insurance. Over-collateralization means that more principal is added to the value of the asset than the amount of principal needed to pay off the underlying loans. Third-party insurance means that the issuer has obtained insurance to cover the payment of principal and interest in the event of an issuer default. This coverage is subject to the claims paying ability of the insurer.

Pre-payment Risk

- Cash flows on mortgage-backed securities are irregular due to the timing and speed of principal prepayments. When prepayments occur, the investor' remaining interest in the mortgage pool is reduced by the prepayment amount. Since prepayments reduce principal over the life of the security, interest income also declines.
- For CMOs, principal prepayments are made based on the payment priorities of the class of CMO held. Prepayment risk varies by the type of CMO held.
- Prepayment assumptions are created based on historical prepayment rates for each type of mortgage loan,economic conditions, and geographic location. These assumptions are then factored into the offering price and yield. Realizing average life and yield is dependent on the accuracy of these prepayment assumptions.
- For securities purchased at a discount to face value, faster prepayment rates increase yield-to-maturity, while slower prepayment rates reduce yield-to-maturity (extension risk). Yields for premium securities may decline due to faster prepayment (contraction risk), or increase based on slower prepayment.

Structural Risk

- For CMOs, principal repayments are made based on the payment priorities of the class of CMO held. Yield potential, credit risk and prepayment risk vary based on the type of security.
- Non-agency CMOs typically employ leverage, which may concentrate losses with subordinate classes to protect senior classes.
- Credit enhancements such as subordination and performance triggers may be insufficient to protect senior classes from losses.
- Even though some CMO classes are designed to be insulated from changes in prepayment, they may still be negatively impacted by prepayment changes beyond those considered. This may, in turn, negatively impact average life and yield performance.

Interest Rate Risk

- As with all bonds, mortgage securities are sensitive to changes in market interest rates. When interest rates rise, the price of the bond will drop relative to the time remaining until repayment (and vice versa).
- Interest rate movements also impact mortgage-backed securities in a second manner, since interest rates affect the principal payment on the underlying loans. A rising rate environment is likely to extend the average life of a security, which ultimately may compound the negative impact of rising interest rates on the price of the mortgage-backed security.

Clients who have acknowledged the risks of these products have made the following representations:

- You acknowledge that you understand the risks of mortgage-backed securities that you may elect to purchase through Ameriprise Financial.
- You also acknowledge that you have received from your financial advisor the “Mortgage-Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs)” investor guide.
- You have determined that mortgage backed securities, generally, are appropriate for you and your account, and that the particular mortgage backed securities that you intend to purchase are suitable for your investment needs and portfolio, notwithstanding the risks associated with purchasing such securities.