Two Harbors Investment Corp.

Webinar Series

June 2012

Investing in Sub-Prime

Two Harbors' Webinar: Investing in Sub-Prime

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Safe Harbor Statement

Forward-Looking Statements

This presentation includes "forward-looking statements" within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ from expectations, estimates and projections and, consequently, readers should not rely on these forward-looking statements as predictions of future events. Words such as "expect," "target," "assume," "estimate," "project," "budget," "forecast," "anticipate," "intend," "plan," "may," "will," "could," "should," "believe," "predicts," "potential," "continue," and similar expressions are intended to identify such forward-looking statements. These forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from expected results. Factors that could cause actual results to differ include, but are not limited to, higher than expected operating costs, changes in prepayment speeds of mortgages underlying our RMBS, the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover certain losses that are expected to be temporary, changes in interest rates or the availability of financing, the impact of new legislation or regulatory changes on our operations, the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process, the inability to acquire mortgage loans or securitize the mortgage loans we acquire, the inability to acquire residential real properties at attractive prices or lease such properties on a profitable basis, the impact of new or modified government mortgage refinance or principal reduction programs, and unanticipated changes in overall market and economic conditions.

Readers are cautioned not to place undue reliance upon any forward-looking statements, which speak only as of the date made. Two Harbors does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statement to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based. Additional information concerning these and other risk factors is contained in Two Harbors' most recent filings with the Securities and Exchange Commission. All subsequent written and oral forward looking statements concerning Two Harbors or matters attributable to Two Harbors or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above.

Two Harbors' Company Overview

Our mission is to be recognized as the industry-leading hybrid mortgage REIT. We'll accomplish this goal by achieving excellence in four areas:

- Superior portfolio construction and fluid capital allocation through rigorous security selection and credit analysis
- Unparalleled risk management with a strong focus on hedging and book value stability
- Targeted diversification of the business model through asset securitization and single family residential properties
- Leading governance and disclosure practices

We strive to deliver value to our stockholders. Since our formation, we have:

- Declared total dividends of $4.14[1] per common share
- Delivered a total shareholder return of 58%[2]

(1) Historic dividends declared by the company may not be indicative of future dividend distributions. The company ultimately distributes dividends based on its taxable income per common share, not GAAP earnings. Total dividends calculated through the second quarter 2012 dividend declaration.
(2) Two Harbors' total stockholder return is calculated for the period October 29, 2009 through June 13, 2012. Total stockholder return is defined as capital gains on stock price including dividends. Source: Bloomberg.

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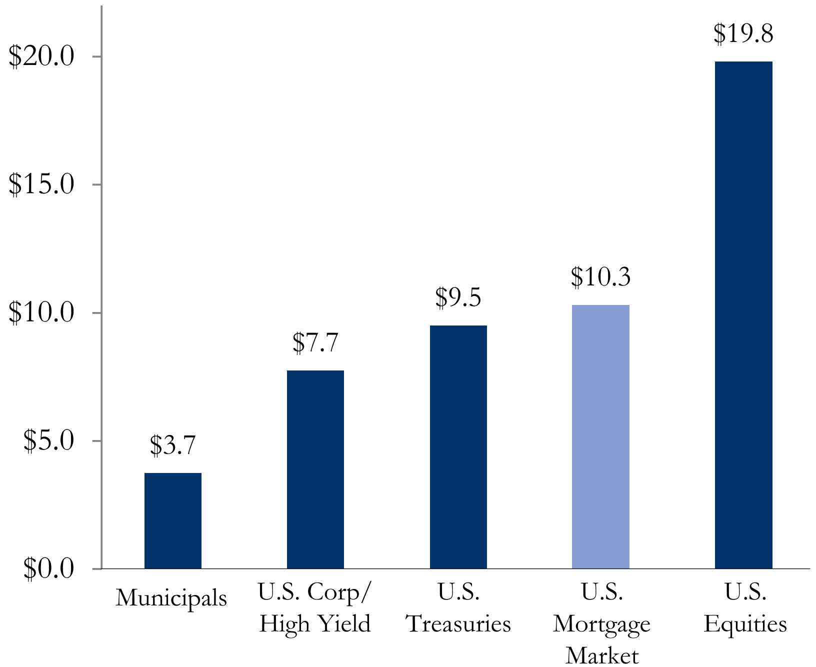
U.S. Financial and Mortgage Markets

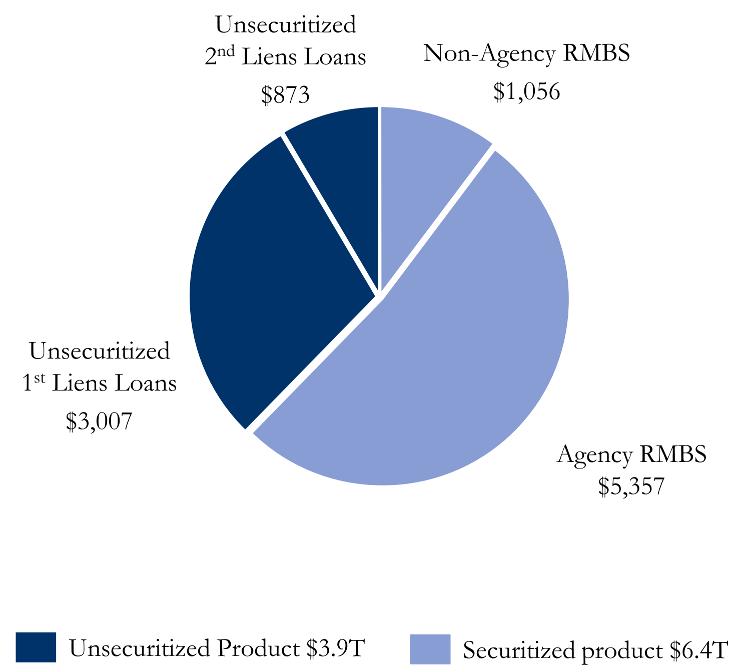
Financial Markets[1]

$ Trillions



U.S. Mortgage Market[2]

$ Billions

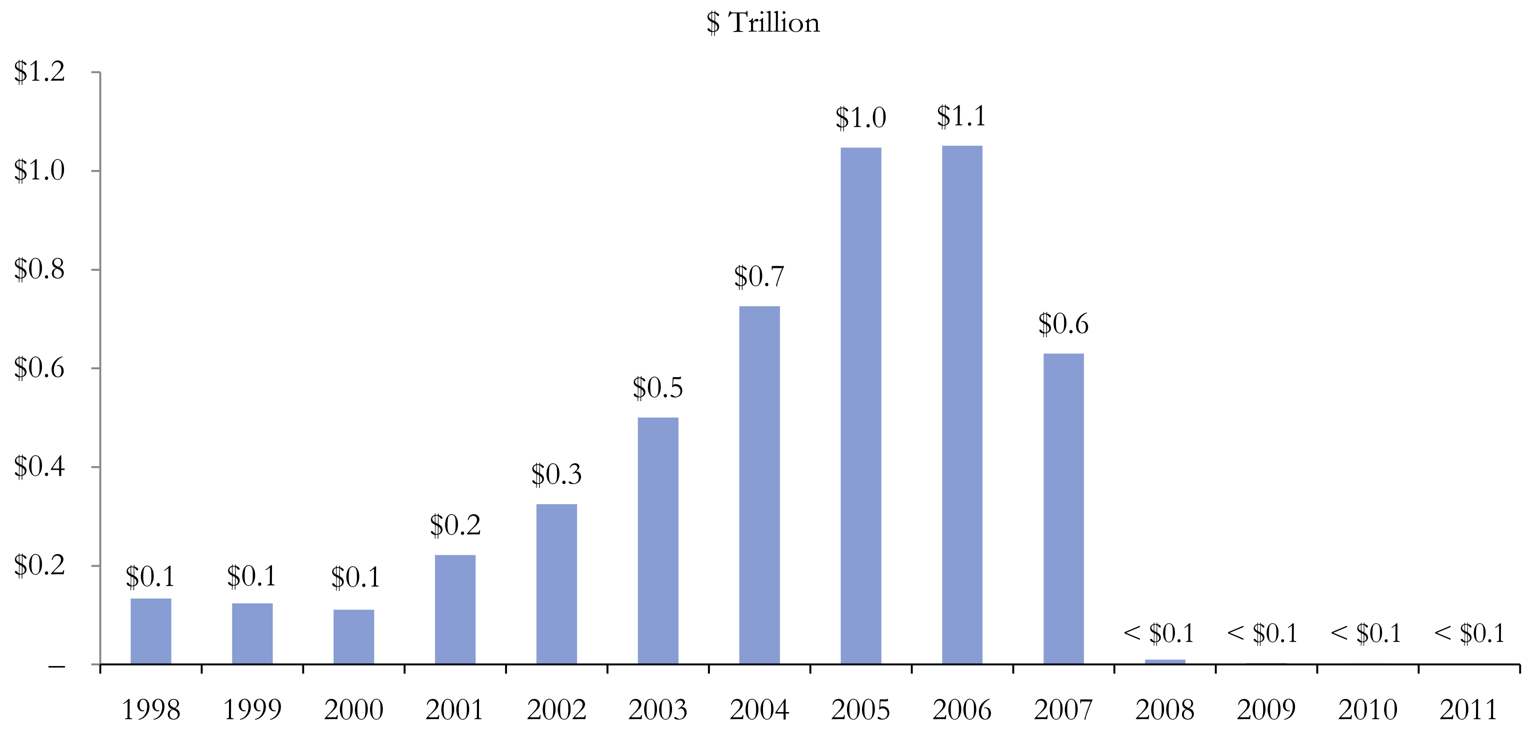


Non-Agency residential mortgage-backed securities represents an extremely large asset class.

(1) Source: Amherst Securities Group LP and World Federation of Exchange. Data presented as of December 2011.
(2) Source: Estimates of Two Harbors and its external manager, PRCM Advisers LLC. U.S. mortgage market data presented as of May 2012.

Non-Agency Origination

Non-Agency Origination



Non-Agency origination reached its peak $1.1 trillion in 2006.

Source: Loan Performance.

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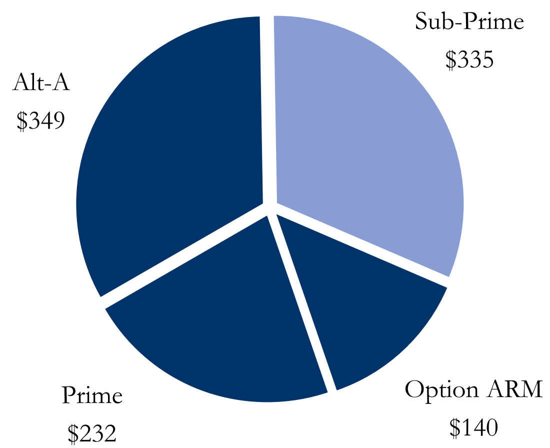
Non-Agency Market Overview

Non-Agency Market

$ Billions



Non-Agency Loan Attributes

Non-Agency Collateral	Current Balance Outstanding ($B)	Average Loan Size ($K)	Average FICO Score	% Full Doc
Prime	$ 232	$ 514	735	49%
Alt-A	$ 349	$ 269	711	28%
Option ARM	$ 140	$ 385	710	13%
Sub-Prime	$ 335	$ 179	621	64%

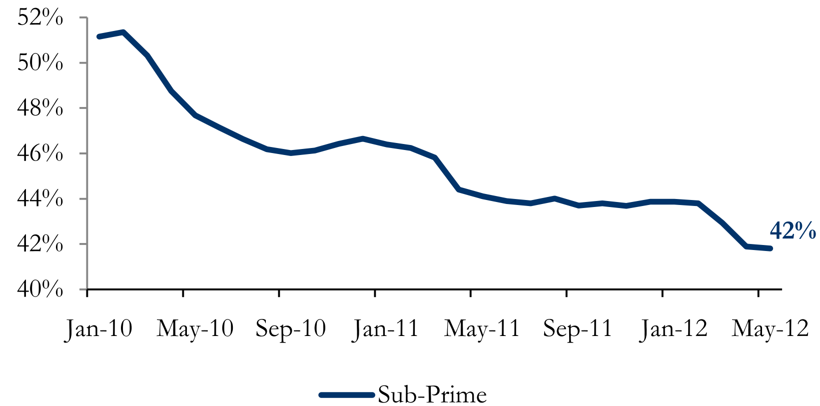
Source: Estimates of Two Harbors and its external manager, PRCM Advisers LLC. U.S. mortgage market data presented as of May 2012.

Market Yields and Sub-Prime Performance

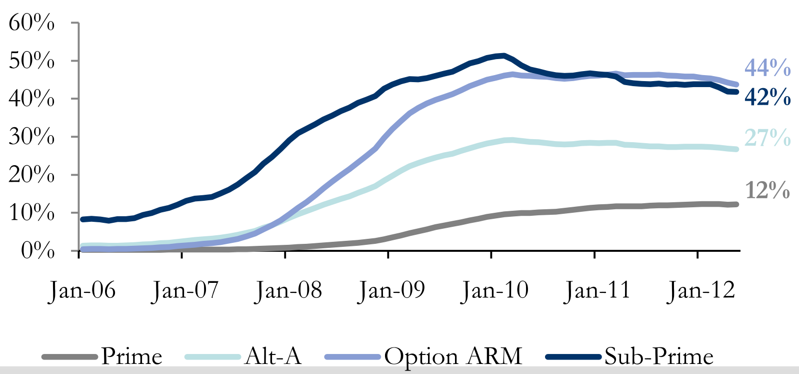
Market Yields

Security	Average Trailing Twelve Months Yield %
Prime	5%
Alt-A	7%
Option ARM	8%
Sub-Prime	10%
High Yield[1]	7%
Investment Grade[1]	2%
5-Year Treasuries	1%

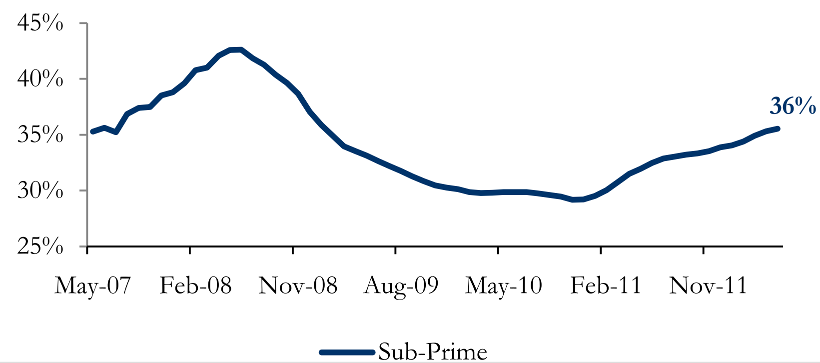
Sub-Prime 60+ Day Delinquencies



Non-Agency 60+ Day Delinquencies



Sub-Prime 12-Month Perfect Pay Rates



Source: Loan Performance and Bloomberg. Market data presented as of May 2012.

(1) Returns on high yield and investment grade bonds are calculated before taking into consideration potential losses.

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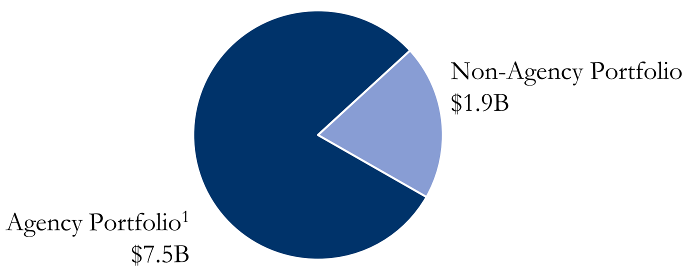
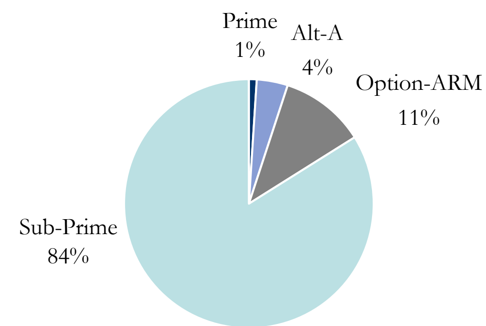
Two Harbors’ Portfolio Composition

Q1-2012 Portfolio Composition

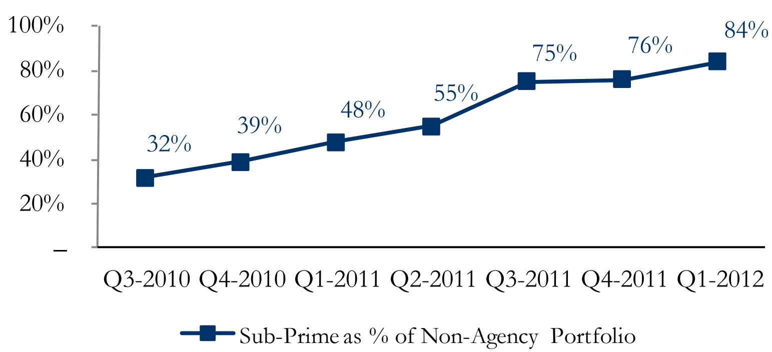
$9.4B RMBS Portfolio



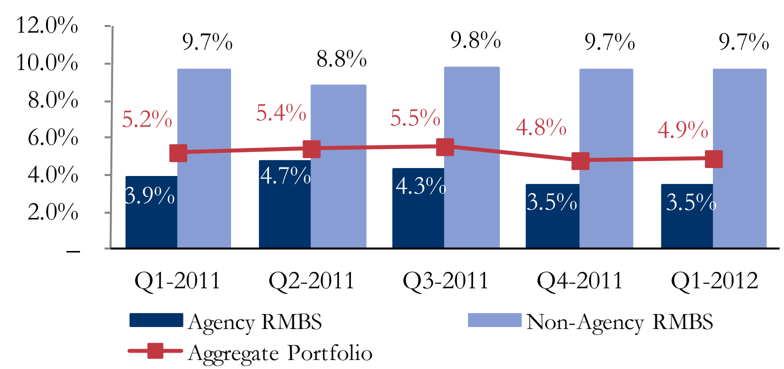
$1.9B Non-Agency Portfolio



Sub-Prime Exposure



Annualized Yields by Portfolio[2]



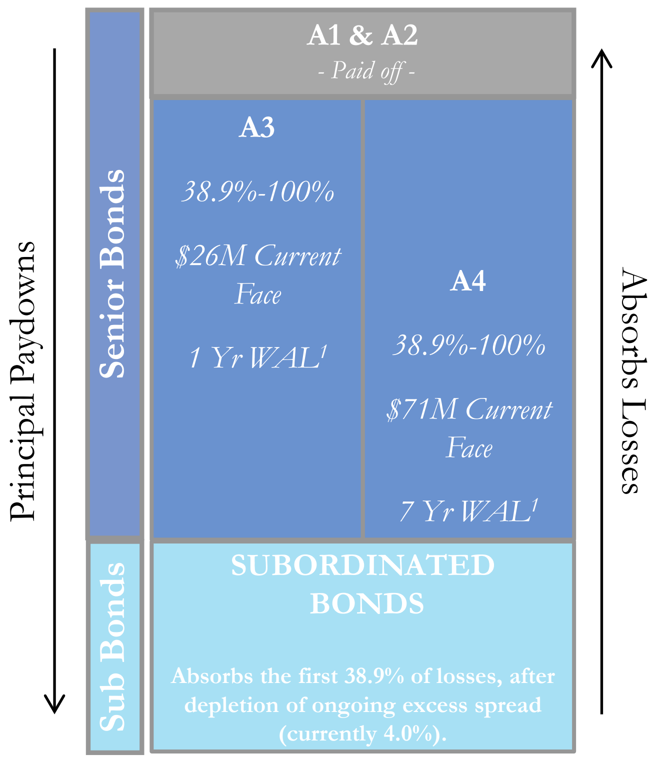
(1) Agency portfolio includes Agency Derivatives of $243 million as of March 31, 2012.
(2) Respective yields include Agency Derivatives.

HEAT 2006-3 Capital Structure

Discount Sub-Prime Senior Bond - HEAT 2006-3 2A4

Represents actual bond held in Two Harbors' portfolio as of the date of this presentation. Collateral summary and yield analysis scenarios represent the views of Two Harbors and its external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used. Actual results may differ materially.

Capital Structure



Payment Info

- Pays sequentially – A1 & A2 already paid off
- A3 expected to be fully paid off in 2014
- A4 Pays a coupon of LIBOR + 0.31%

Deal Structure

- Receives protection from credit losses from the subordinate bonds and ongoing excess interest
- Subordinated bonds represent 38.9% of the current capital structure
- Excess spread is currently 4.0% or approximately $1 million per month

(1) "WAL" is defined as weighted average life.

Underlying Loan and Borrower Characteristics

Discount Sub-Prime Senior Bond - HEAT 2006-3 2A4

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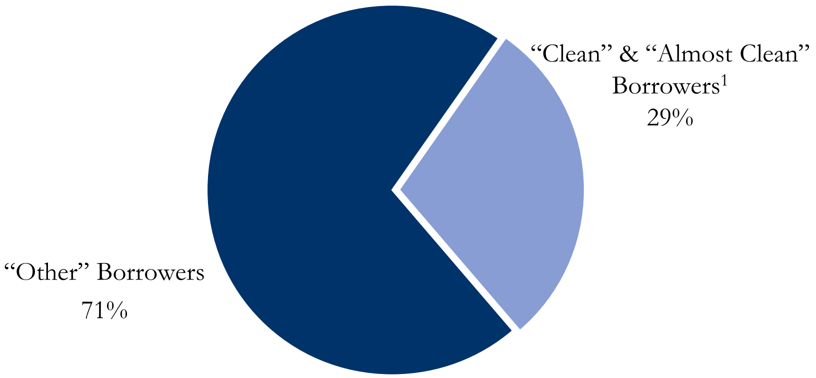
Underlying Loan Characteristics

- Vintages:
  - 2005 Origination: 69%
  - 2006 Origination: 31%
- 45% of the pool was underwritten by Wells Fargo

Borrowers in the Pool



Approximately one third of the pool is of high credit quality.

(1) "Clean" is defined as a borrower who has never missed a payment. "Almost Clean" is defined as a borrower who is current and has never been delinquent more than three times for a period greater than 30 days or delinquent one time for a period greater than 60 days.

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Delinquencies and Potential Defaults

Discount Sub-Prime Senior Bond - HEAT 2006-3 2A4

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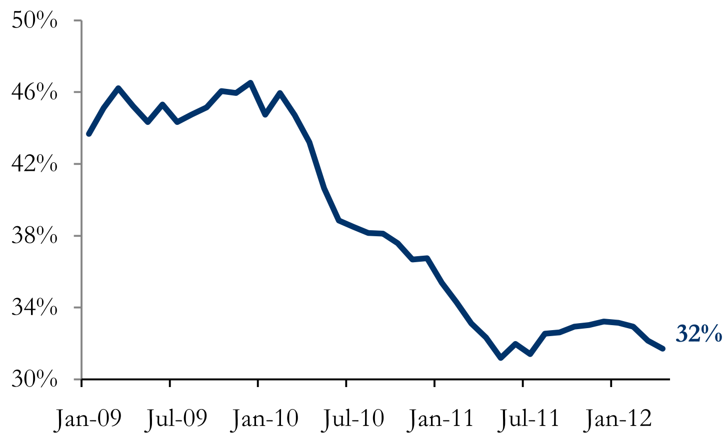
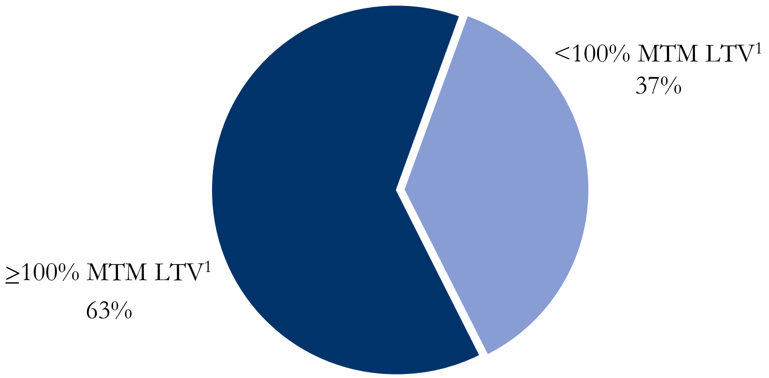
60+ Day Delinquencies



Delinquencies have improved significantly.

Underwater Borrowers



Over one third of the pool is not incentivized to strategically default.

(1) Represents average MTM LTV. "MTM LTV" means mark-to-market loan-to-value ratio.

Bond Recovery Example

Initial House Value		Amount
House Value	$	200,000
Down Payment (10% of initial home value)		(20,000)
Initial Mortgage Amount	$	180,000

Today's Value		Recovery without Distressed Sale		Recovery with Distressed Sale
House Value (35% market depreciation)	$	130,000	$	130,000
Distress Sale Discount (20% discount)		-		(26,000)
Sale Price		130,000	$	104,000
Legal & Transaction Costs Pertaining to Foreclosure		(57,000)		(57,000)
Net Sale Proceeds	$	73,000	$	47,000
Initial Mortgage Amount	$	180,000	$	180,000
Loss on Initial Mortgage		(107,000)		(133,000)
Recovery		41%		26%
Severity[1]		**59%**		**74%**

(1) This example represent the views of Two Harbors and its external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used. Actual results may differ materially.

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Loss Severities

Discount Sub-Prime Senior Bond - HEAT 2006-3 2A4

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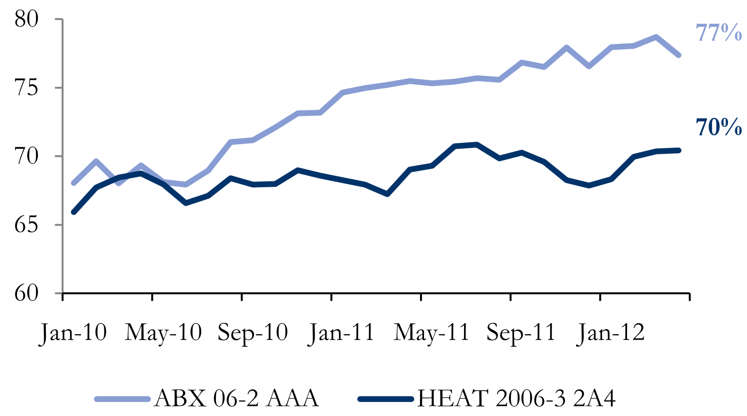
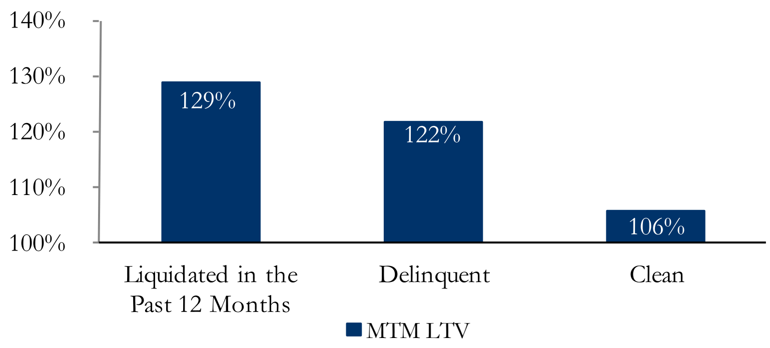
12-Month Average Severities



MTM LTV[1]



12-month severities have been stable in comparison to the ABX.

LTVs suggest potential for improvement in future severities.

(1) Represents average MTM LTV. "MTM LTV" means mark-to-market loan-to-value ratio. "Delinquent" refers to loans in which the borrower is over 30 days late on his mortgage payment.

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Yield Analysis: Base Case

Discount Subprime Senior Bond - HEAT 2006-3 2A4

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Yield Analysis

- Market price at 5/2/2012: $58.5

	Home Price Appreciation	Total Loan Defaults	Average Loan Severity	Prospective Deal Losses	Bond Recovery	Loss-Adjusted Yield
Base Case	10% decline for year one; 2% increase for remaining life	70%	74%	52%	94%	**10.4%**

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Yield Analysis: Severe Stress Case

Discount Subprime Senior Bond - HEAT 2006-3 2A4

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Yield Analysis

- Market price at 5/2/2012: $58.5

	Home Price Appreciation	Total Loan Defaults	Average Loan Severity	Prospective Deal Losses	Bond Recovery	Loss-Adjusted Yield
Base Case	10% decline for year one; 2% increase for remaining life	70%	74%	52%	94%	**10.4%**
Severe Stress Case	20% decline	75%	83%	62%	74%	**7.1%**

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Yield Analysis: Upside Case

Discount Subprime Senior Bond - HEAT 2006-3 2A4

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Yield Analysis

- Market price at 5/2/2012: $58.5

	Home Price Appreciation	Total Loan Defaults	Average Loan Severity	Prospective Deal Losses	Bond Recovery	Loss-Adjusted Yield
Upside Case	5% increase	59%	66%	39%	100%	**12.4%**
Base Case	10% decline for year one; 2% increase for remaining life	70%	74%	52%	94%	**10.4%**
Severe Stress Case	20% decline	75%	83%	62%	74%	**7.1%**

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Yield Analysis Summary

Discount Subprime Senior Bond - HEAT 2006-3 2A4

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Severe Stress Case	20% decline	75%	83%	62%	74%	**7.1%**

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Summary

Sub-prime sector currently presents attractive opportunities on a loss-adjusted basis.

- The sub-prime sector functions like a distressed market. We believe the mispricing of credit risk presents an opportunity for investors with strong expertise in credit analysis.
- Subordination and excess spread built into the capital structure can provide sub-prime bonds protection against substantial losses on the underlying loans.
- Our investment in sub-prime is not purely a valuation play. We believe these bonds provide attractive loss-adjusted yields against a backdrop of improving loan performance.
- Sub-prime bonds provide us the opportunity to apply what we believe are severe assumptions that stress test well in a scenario involving a further housing market downturn.

Contact Information

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